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EAST-WEST TRADE

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HEARINGS

BEFORE THE  
SUBCOMMITTEE ON EUROPE  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

SECOND SESSION

JANUARY 30; FEBRUARY 20, 21, 27, 28; MARCH 7 AND 27, 1968

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## EAST-WEST TRADE

### 1. Members of Congress

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TUESDAY, JANUARY 30, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 10:15 a.m., in room 2172, Rayburn House Office Building, Hon. Edna F. Kelly (chairman of the subcommittee) presiding.

Mrs. KELLY. The subcommittee will please come to order.

This morning our subcommittee is opening a new series of hearings on East-West trade and related transactions.

We have had these hearings on our subcommittee's agenda for nearly a year. We planned to hold them this past spring and again last December. Unfortunately, the prolonged consideration of the foreign aid program and of other legislation referred to the Committee on Foreign Affairs compelled a change in our plans.

We are beginning our hearings with testimony from Members of Congress for two reasons:

First, because there is considerable interest in this subject among our Congressmen. This interest is reflected in the fact that some 105 Members have sponsored resolutions proposing the establishment of a select committee to study issues of East-West trade. It is further reflected in the many other bills and amendments which suggest various changes in existing statutes relating to such trade.

But, going beyond this ample evidence of congressional interest in East-West trade, we feel that Members of Congress, because of their experience in various fields of legislation and their close contact with their constituencies, can offer many suggestions which will help us to define the structure of these hearings so that they may be fully responsive to congressional needs.

In this regard, I should like to mention that our inclination at this point is to take a close look at the whole range of legislation which bears on East-West transactions—and to see how these various statutory provisions implement or advance our foreign policy objectives.

To put it in other words, we are not going to confine ourselves to the examination of the Foreign Assistance Act, the Mutual Security Act, and the Battle Act. We will also take a look at operations conducted under the Export Control Act, the Export-Import Bank, the Public Law 480 program, and so on.

There is always the possibility, as we go along legislating from year to year, that we can accumulate a series of statutory provisions which may not be consistent with each other and may, on occasion, run counter to our policy objectives.

We would certainly want to expose such inconsistencies if they do exist. We are interested in having a coherent, effective policy on East-West trade. This should be our No. 1 priority.

I should like to add that this undertaking is nothing new to our subcommittee. Over the years we have conducted many hearings and studies relating to this subject. A partial list of our documents which deal with East-West trade includes:

The Soviet Economic Offensive in Western Europe, 1963.

Report of Special Study Mission to Europe, 1964.

Recent Developments in the Soviet Bloc, 1964 (hearings).

Report on Poland, Czechoslovakia, Austria, and Italy, 1965.

Conditions in the Baltic States and in Other Countries of Eastern Europe, 1965 (hearings).

The Crisis in NATO, 1966 (hearings and report).

Our Changing Partnership With Europe, 1966 (study mission report).

Recent Developments in East-West Relations, 1966 (hearings).

The Soviet Union and Scandinavia (study mission report, 1967).

At this point I am pleased to welcome several of our colleagues who have taken time from their busy schedule to be with us this morning.

In congratulating those Members who are here to testify, I also want to express my personal disappointment that so few have sought to avail themselves of this opportunity.

This is particularly surprising in view of the large number of Members who have sponsored legislation to set up a special committee to pursue the issue of East-West trade.

Last fall, before the Rules Committee, a number of them energetically urged the creation of such a select committee.

The inference of their recommendations was that they did not have a duly constituted body to undertake this job. Yet where are they this morning?

And where were they on last December 7, when we scheduled our first meeting to take testimony from Members of Congress on East-West trade? That meeting had to be canceled because of lack of witnesses.

At this point we will begin taking testimony by calling on a distinguished member of this committee, the Honorable Paul Findley, of Illinois.

Congressman Findley, we will be happy to have your statement.

#### STATEMENT OF HON. PAUL FINDLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. FINDLEY. Thank you very much, Madam Chairman.

The current review of 50 years of Soviet rule in the U.S.S.R. and of two decades of Communist rule in Eastern Europe might be well served by a reevaluation of the fragmented policies which the free-world nations have been pursuing toward Eastern Europe. Such an analysis will reveal an urgent need for a new approach to supplant the defensive military concept of the NATO alliance with a more progressive economic concept of an alliance for peace.

As such a review is made it will be noted that, prior to the Communist coups, most of the Eastern European states had very strong

Western orientations and that sentiment for Western ways—though repressed—is still considerable in that area.

Times have changed and the scene in Eastern Europe is not what it was in 1947. A brief review of this scene might cast further light on the situation.

For most of the past thousand years Eastern Europe has looked West—not East. This orientation—so deeply felt—continued until the fateful years following World War II.

At that time another alien invader—the Soviet Communist—separated the historic nations of Eastern Europe from the rest of the continent and compelled them to become an integral part of the great Asiatic plain.

The late Sir Winston Churchill aptly described this scene when he said:

From Stettin in the Baltic to Trieste in the Adriatic, an Iron Curtain descended across Europe. Behind it lies all the ancient capitals of Eastern Europe.

Today, 20 years later, Marx-Leninism, the not-so-“inevitable wave of the future” is slowly being repudiated. The Iron Curtain shows signs of rusting away. Nationalism, self-determination, and freedom were too precious to be discarded permanently and completely for the “dictatorship of the proletariat.”

Now, traditional communism in Eastern Europe is being challenged. Yugoslavia has become heretical—disavowing many of the basic precepts of the orthodox Communist doctrine. Rumania is increasingly showing independence. In Poland, although reneging on some concessions extended to the people after the October 1956 upheaval, the regime has been compelled to grant freedom of worship, semiprivate ownership of agriculture, and some relaxation of thought control. Czechoslovakia and Hungary are restive and unable to cope with growing demands for economic and political reforms. Albania has become a thorn in Moscow's side by declaring its allegiance to the cause of Mao Tse-tung. Even East Germany's once rigid pro-Moscow line is beginning to waver as its people seek greater contact with the West and still long for union with the Federal Republic.

The question begging an answer is: What can the free nations do to help promote an even more rapid disintegration of the Iron Curtain, which still quarantines—although no longer isolates—over 100 million people? What will we do to help the nations controlled by Communist parties achieve greater freedom—and thus enhance world peace?

The answer lies not in a fragmented, isolated approach, but in a practical and concerted effort that would promote those ideals which insure the stability of all free nations. After all, it is the West that has found the formula for genuine economic, political, and social betterment of mankind.

The Communist East has led their peoples down only blind alleys from which they can find no escape except through promoting “wars of national liberation.” Consequently, it is the West which must offer leadership in the quest for mankind's true progress and enduring peace.

The impending threat of Red Chinese nuclear potential, the continued Soviet Communist interest in world domination, the disarray in the once potent Western alliance and possible breakup of NATO in 1969 compel us to undertake this task. The United States cannot con-

tinue its isolation from the rest of the Western Allies in dealing with the Communist states. This independent approach, accentuated since 1961, has shown the weakness which any would-be aggressor can exploit by the well-known scheme of "divide and conquer." Obviously, it is the free nations of the world who have the most important stake in their futures.

In my judgment the safest and most effective way to promote the disintegration of the Soviet-imposed satellite system in Eastern Europe is to develop a coherent unified policy approach in the political, economic, and military fields within the Atlantic Community. The cohesion and strength this would yield in each of these areas will inevitably attract Eastern European nations, and cause them to seek a profitable arrangement with the Atlantic Community. The Common Market is obviously having that sort of effect on Yugoslavia and Rumania, and in time will develop tremendous centrifugal pulls on Poland, Bulgaria, Hungary, Czechoslovakia, and Albania. The pull would be even greater if the Common Market were to be enlarged into an Atlantic Common Market or Atlantic Free Trade Area.

A unified Atlantic political policy will make the Eastern European nations realize that destiny is directed by the West—not Moscow—and induce them as a matter of cold practicality to adjust to that fact of life. Unified military policy mixed with political firmness on such matters as allied access to Berlin will continue to contain and hinder any plans of Moscow to extend its hegemony to any other European nation. It will serve to exacerbate the internal stresses and strains and, thereby, reinforce Moscow's only other alternative—once her aggressive ambitions are checked—this is, peaceful engagement and cooperation with the West and a gradual lessening of its revolutionary zeal and internal totalitarianism. To expect these developments in the absence of military superiority, political firmness, and allied unity is to invite disaster.

Therefore, I propose that efforts to promote a detente with the Soviet Union and to achieve a rapprochement with Eastern Europe be undertaken only through Atlantic Community institutions. The West should strive for a common policy on such matters as East-West trade, German reunification, the Oder-Neisse line, and the granting of economic credits to Eastern Europe. The more West Europe is united, the greater will be the tendency toward fragmentation of the Communist bloc.

A common allied policy may well mean that we will have to modify, perhaps even liberalize some of our present policies regarding strategic trade and long-term credits. The COCOM (Coordinating Committee on Export Control) list of strategic materials is only one-third of our own more restrictive list. West European nations have demonstrated a greater willingness than the United States to extend long-term credits. However, a common unified policy has advantages which offset what may be a short-term Communist credit advantage as a result of any liberalization.

First, it will successfully avert credit wars between the members of the Atlantic Community. Therefore, we will not be in the position of undercutting each other for access to Communist markets. Secondly, agreement on these matters will serve to convince the Communist leaders of the unity of the Atlantic Community on political, military, and economic policies. The unified policy that will result will not mean

that the lowest common denominator becomes the policy. The give and take and exchange of ideas and intelligence among the members of the NATO Council may, and hopefully will, serve to produce a policy of firmness, the impact of which will be all the greater because it will be the unified policy of the West, not the unilateral policy of the United States. If the Atlantic nations can find a way to "hang" together, to achieve a common policy, then no possible combination directed against them will be able to cause serious trouble. As I stated earlier, the centrifugal pulls on Eastern Europe and eventually even the Soviet Union will be irresistible.

A third consideration that should govern our attempts to dismantle the Iron Curtain is to resist any move to recognize the legitimacy of Soviet domination in the area east of the Elbe. Reality dictates that we recognize Soviet influence in the area, but we must prevent giving the vital approval of legitimization which the Soviets desperately desire.

Therefore, we should not engage in any policy that strengthens the international standing or prestige of the Soviet Zone of Germany. Nor should we recognize the illegal annexation of the Baltic States by the Soviet Union.

We should use every resource at our command to spread the ideas and ideals of freedom in Eastern Europe. The Iron Curtain is not soundproof. It can't keep out ideas and knowledge of what life in the West is really like. Voice of America and Radio Free Europe broadcasts must be adequately funded and should accurately report and contrast life in the West with that under communism. Lies, distortions, and propaganda by the Communists regarding the West should be rebutted forcefully, lest silence be taken as acquiescence. Cultural, scientific, and educational exchanges can do much to convince the young adults—the isolated generation of Eastern Europe—that the Western way of life is more satisfying spiritually as well as materially. The use of local language publications such as *Ameryka* in Poland should be sought in Rumania and in other countries.

A fourth consideration should be to realize our limitations in promoting external autonomy and internal freedom in these countries. The United States has natural political limitations on its effectiveness because it is the preeminent leader of the Western World and therefore Eastern European leaders are naturally suspicious and on their guard in their dealing with us. In every possible way the West should speak and act as one. Where this is not possible, national initiatives should be encouraged. The efforts of France and Germany, for example, to achieve a broader understanding in Europe should be applauded. These initiatives by our allies in NATO can do much to disassociate the East Europeans from Soviet domination. The initiatives of Germany are especially commendable and do much to undercut the propaganda directed against Bonn by Pankow and, to a lesser extent, by Warsaw. In this respect, the willingness of the Federal Republic to establish diplomatic relations with the Eastern European countries, representing a modification of the Hallstein Doctrine, has had the effect of further isolating the Soviet Zone of Germany. Similarly, the suggestions of Willy Brandt, Foreign Minister of the Federal Republic, the German Evangelical Church, Christian Democrat leader Erik Blumenfeld, and Count Marion Doenhoff, political editor of the

prominent German magazine, *Die Zeit*, that Germany renounce any claims to the Oder-Neisse lands has seriously weakened the effect of propaganda directed against Bonn by the Polish Government. These imaginative efforts by the German leaders have done much to undermine Gomulka's insistence that Poland must remain close to the Soviet Union in order to protect its western frontier. Thus, the first step toward a Polish-German reconciliation has been taken. How much greater, however, would be the impact of these developments if the entire Atlantic Community stood behind them.

A fifth policy consideration involves the use of the "carrot and the stick." The Atlantic Community should use its vast economic and political influence to reward those Eastern European nations which show progress toward independence and internal liberalization, and at the same time use such tools to punish any retrogressive steps. John Foster Dulles first proposed this policy in 1952 and I believe it represents one of our strongest bargaining techniques.

External autonomy and internal liberalization can be recognized and rewarded in a number of ways. Public approval by our Government of these measures is one way. The extension of economic credits, block licenses, associated membership in the EFTA, Common Market, and GATT can all be used as instruments to promote our policy in this respect. But the success of the "carrot and stick" technique will be directly related to the cohesion of the Atlantic Community.

An overriding objective of our policy should be the gradual erosion of the objectionable tenets of Marxism-Leninism. Communist philosophy, either as a guide to economic and social development or as a system of thought, is clearly on the defensive and undergoing a steady erosion.

The continued erosion of the most revolutionary features of party doctrine may well undermine the revolutionary zeal of the party hierarchy.

One way in which this can be done is through East-West trade. It is my contention that before we extend most-favored-nation treatment to any Communist government of East Europe or the Soviet Union we must insist upon three things:

1. The Communist governments must agree to settle commercial disputes, in the absence of mutual agreement between the parties to the contract, by the use of impartial third-party adjudication. Presently these countries will agree to arbitration only if held in their respective countries through the facilities of their bureaucracy. I propose instead that the panels now in existence at Paris, Stockholm, and Zurich, among others, be used to bring the Communists into the arena of international law. If the experience is a satisfactory one for these governments, these procedures of the Western marketplace may eventually lead to a significant modification of Communist state trading.

2. The Communist governments must agree to abide by the conventions on protection of patents and industrial processes.

3. The Communist governments must sign and abide by the International Convention on Copyrights.

These last two conventions are designed to protect private property. The Communists refuse to recognize the role of private property in socioeconomic development except in the most negative manner. Since international commercial intercourse is not possible until one recog-

nizes the legitimacy of private property, and the rule of law to settle disputes, then the Communists should be induced to accept these concepts and adjust to them accordingly.

It should be stipulated that failure on the part of the state-run trading corporations in these Communist countries, to conform completely to these particulars would cause the automatic suspension of the most-favored-nation status and suspension would continue until the state organization revised its policies.

Although these are worthwhile steps, we should not expect too much in the way of corollary political moderation.

How can we measure our progress in dismantling the Iron Curtain? I would expect the gradual evolutionary liberation of Eastern Europe to follow, more or less, the following progression:

1. Soviet satellite.
2. National communism within the bloc.
3. National communism outside the bloc.
4. Nonalignment or neutralism.

With the exception of the withdrawal from the Warsaw Pact and the announcement of neutrality by the Nagy Government of Hungary on November 1, 1956, no Warsaw Pact member has reached stage 3 or 4. However, Yugoslavia has had a remarkable record of independence on many foreign policy matters and probably is moving toward neutralism after professing nonalignment for over 10 years.

Poland and Rumania can probably be placed in category 2, although developments are presently more promising in Rumania than in Poland. The only genuine Soviet satellite, insofar as complete obedience to Moscow is concerned, seems now to be the Soviet Zone of Germany.

The criteria to determine how far along the scale toward neutralism an East European country moves should include the following: foreign policy initiatives independent of the Soviet Union, degree of religious freedom, relative freedom of the press, pragmatic economic policies, and genuine freedom of choice in elections.

We should also watch to see whether the governments permit a growth in the absolute number of individuals and social groups who are able to voice demands and effectively articulate them and who feel that they can increasingly identify and satisfy their needs, values and interests within the political community. At the same time, we should encourage the governments to accept and tolerate criticism or diversity of opinion. We have seen a tendency of this sort in Poland where the Government resisted Soviet pressure to collectivize agriculture.

Regretfully, our present policies toward Eastern Europe are not based upon achieving a common allied policy or an adroit use of the "carrot and stick" approach. The United States appears determined to build its own bridges to the Eastern European countries and the Soviet Union without consulting, informing or working in harmony with our allies. Increasingly West Europeans feel that their legitimate national interests are going to be sacrificed or given secondary attention as the result of some Soviet-American understanding or *modus vivendi* pending a final European settlement. Indeed, the possibility of the Soviet Union and the United States reaching a settlement of outstanding European problems behind the backs of our NATO allies is perceived by our allies as a real one. The most recent indication that

we prefer the bilateral as opposed to a unified allied policy came in the negotiations over the draft treaty on the nonproliferation of nuclear weapons.

Our relations with Eastern Europe are based more on achieving some type of satisfactory and pleasant relationship with the ruling Communist parties and the isolated generation of postwar emerging leaders. We have been willing to reward these countries with economic concessions when the occasion was appropriate, but to date we have not used the "stick" to punish or deter unsatisfactory developments such as have occurred most recently in Poland. Indeed, in some cases we have extended economic concessions when the circumstances clearly did not justify it. To illustrate, a year ago the President announced credit guarantees through the Export-Import Bank for several East European countries, two of which, Czechoslovakia and Poland, are sending arms to our enemy in North Vietnam.

We are now pressing for approval of a treaty on nonproliferation of nuclear weapons though some of our allies in the Atlantic Community are concerned about this, which to me shows a backward set of priorities.

Eastern Europe holds a special place in the American conscience. Our own independence was won with the assistance of such men as Thaddeus Kosciuszko and Casimir Pulaski. Western civilization has been enriched by Eastern European contributions to art, science, literature, and music. The names of Sienkiewicz and Norwid in poetry, Chopin and Paderewski in music, Kant in philosophy and Curie and Copernicus in science remain with us today because of their unusual gifts which subsequent generations have enjoyed.

It is one of the tragedies of geography that Eastern Europe's yearnings for independence and freedom have been so frustrated. But the dreams of genuine independence have not been forgotten in the seemingly endless nightmare of totalitarianism.

Remembering the tragedy of Eastern Europe, 4 years ago at a special Slavic Rite Communion, Pope Paul VI spoke for all of us when he said we wait "in silence and in tears for the dawn of a better day."

I want to thank you for allowing me to present my views on East-West relations.

Mrs. KELLY. I am sure we have all appreciated your very direct and detailed comment on our policy.

There are several questions which I hope you will answer.

On page 4 you say, "If the Atlantic nations can find a way to 'hang' together, to achieve a common policy—" Have we not endeavored to "hang together" on the issue of strategic trade controls under the arrangements embodied in the Coordinating Committee, or COCOM, operating under NATO auspices?

Mr. FINDLEY. I am afraid if there has been an effort it hasn't been sufficiently productive.

I might add, too, we have taken some steps through the NATO Council in the last few months which I think are promising. They are in the right direction, but I wish they had come a long time ago. If they had, I think we would have been in a lot better position in Europe today. Whether they are just going to be talk without much substance, time will tell.

One thing that immediately undercuts them in effectiveness is the emphasis that the President is now giving to the Nuclear Nonproliferation Pact which essentially in its basic form is an effort on the part of the Soviet Union to work out a deal with the United States to keep other countries from having the super weapons. While this may be a highly desirable objective, it does tend to bypass our relationship with Western Europe, and their natural interests, and I think it comes at a very unfortunate time.

Mrs. KELLY. I do agree that some of our initiatives in the field of East-West relations have come somewhat late. The fact remains that in spite of our efforts, there is a distinct division at this time between the policies toward the East pursued in Europe, and those of the United States; is that not correct?

Mr. FINDLEY. Yes, there is. I should say there is.

Mrs. KELLY. Do you believe these differences should be and can be corrected?

Mr. FINDLEY. I hope in the long reach of history they can be corrected. I don't expect any very radical changes in the immediate future. Here in my statement today I tried to deal with what could be accomplished with the tools which seem to be at hand, and I think we could make a significant advance if, through the NATO organization or through some other Atlantic institution, we could achieve a common policy on East-West trade and by that bring the Eastern European countries into the marketplace system of trading. This would force them to modify the customary traditional practices of the Marxist system. To that extent, I think it would be a forward step. It is not any earthshaking development, but still I think a worthwhile one.

Mrs. KELLY. Under some of our laws, the President has the right to find that a country is no longer under the domination of the international Communist conspiracy. Do you think we should make any change in those particular statutes?

Mr. FINDLEY. Well, here again this act gives the President the authority. If, in exercising that authority, he would work through the Atlantic institutions, it could be a great force for progress in our relationship with Eastern Europe. But if, instead, he uses it only as a means of expressing U.S. policy, then it doesn't achieve the desired effect from my standpoint.

Mrs. KELLY. Didn't the Congress change that act last year and try to deny the President that right?

Mr. FINDLEY. Well—

Mrs. KELLY. Generally speaking, do you feel that we should trade with Communist countries?

Mr. FINDLEY. I think it is desirable for us to work out a practical relationship with Communist countries in trade matters.

I do feel, Madam Chairman, that when our country is at war on a massive scale—and I think we must acknowledge that is the case in Vietnam—that we have to give that conflict the highest priority in our public policies, and in those circumstances I think we are fully justified in taking exception to what might otherwise be prevailing policies. For that reason I think the countries that do supply military articles to our enemy hardly deserve any kind of favorable trade privileges. That is why I did suggest that we use the "stick" as opposed to the "carrot" approach in regard to Poland, for example. And I did

not use Yugoslavia, the other country that has been determined under this act not to be a part of the international Communist organization.

If we fail to use the stick where we have the opportunity to do so, we diminish the advantage of the carrot when we see fit to use it.

Mrs. KELLY. In this nuclear age, can we afford to do that?

Mr. FINDLEY. Can we afford to—

Mrs. KELLY. To use the stick?

Mr. FINDLEY. We are certainly using an explosive stick in Vietnam. There are many times when I question the wisdom of how we are proceeding there, but we are indeed using the stick and I think in this world in which we still have nationalism, we still have imperialism within some national states, we have to be willing to use the stick at times even though it carries great risk.

Mrs. KELLY. Thank you, Mr. Findley. I hope you understand some of my questions were posed in an endeavor to bring out certain facts which I know are of interest to all of us.

Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. I should like to say that I have found the testimony of Mr. Findley very interesting, as I might have expected.

I am somewhat disturbed about the possibility of achieving the goal which you suggest is so important. The chairman mentioned that what we needed to develop was a coherent, effective U.S. policy toward trade. Your suggestion is that we should develop a coherent, unified policy with respect to all Western countries, which is an even bigger assignment. How realistic is that? It might even be difficult for us to develop our own coherent policy.

It does seem to me that you put your finger on the basic problem. If we are to develop a coherent allied policy, Western policy, Atlantic Community policy, we must transform our way of looking at trade with the East.

Mr. FINDLEY. That is true.

Mr. FRELINGHUYSEN. It is a question of how we might adjust ourselves, becoming more liberal, and not trying to get a more restrictive attitude on the part of our allies.

It doesn't seem to me we are going to get anywhere if we attempt to get Western Europe to cut back on the trade and the contacts which they have been developing. Is it realistic, from our point of view, to think that we can do much about liberalizing our own approach at this particular time?

You have mentioned one of the reasons why it is not likely. You point out that the war in Vietnam is a complication. Is it realistic for us to argue there should be a transformation of our attitude toward trade with these countries? Trade with the East isn't of great significance to us one way or another. I wonder, is it realistic, do you think, to expect the allies to develop coherent policy?

Mr. FINDLEY. Well, frankly, Mr. Frelinghuysen, I am not optimistic about any substantial progress in the field of East-West trade until the Vietnam war is settled. I did try to set forth here some practical ideas that could be used when that time does come, but I must agree with you that, if that is what you are expressing, that this is not a very promising moment for such progress. But even so I think we should attempt to improve our Atlantic institutions in order to provide the mechanism, even though it might not be fully utilized at

this time, through which this greater cohesion could be effected later on.

I don't want to leave the impression that I expect the entire Western World to be involved in this. The more logical starting point would be that group of nations that has worked together rather closely in military defense matters; the NATO community. It could well be that all of them would not see fit to act together, but certainly these countries have the greatest array of common interest and common problems and I think common traditions too.

Mr. FRELINGHUYSEN. You shot holes in your own argument to an extent by pointing out that the independent national initiatives of France and Germany are to be commended. You admit one can help destroy the Iron Curtain just as effectively by these national initiatives, as by an attempt to develop a NATO front. It does seem to me that the harmonization between countries in this area is not going to be an easy thing to achieve even though, as a goal, we might say it would be desirable, especially when we don't seem to be in a position now of providing any leadership at all.

Mr. FINDLEY. We certainly are not.

Mr. FRELINGHUYSEN. Your basic approach is that we should follow the leadership of Western Europe, as I understand it, certainly Western Europe is not looking to us for leadership with respect to what kind of arrangements to make with Eastern Europe. They are reasserting traditional ties which have existed. This is all to the good but we have been left out pretty much.

I can't envision this transformation.

Mr. FINDLEY. I am not saying it will occur, but it is a helpful step when Germany does establish diplomatic relations with some of the countries after this long span of time. That is a step in the right direction and I would hope we wouldn't hold back on any progressive steps, in East-West relations until that day when we do have the cohesive policy. But I do think a powerful argument can be made for a unified policy on the part of the NATO countries and particularly a community including the United States.

Mr. FRELINGHUYSEN. Is it your feeling that our desire to push for a nonproliferation treaty is actually being a disruptive force in Europe?

Mr. FINDLEY. I have no doubt whatever on that point. It is disruptive in Italy, but not to the degree that it is in Germany. At the North Atlantic Assembly last November in Brussels, I had a number of private conversations with Bundestag members and they were very much disturbed, I think genuinely concerned about the effect that our pressure for the nonproliferation treaty might have upon internal politics in Germany. They have a coalition government, of course, which I would think hangs by a rather tiny thread, and they do have a new Nazi element in Germany. To the extent that we appear to be dealing over their heads to work out a treaty to the disadvantage of Germany and of long-term disadvantage to other European countries, then I think we do create a very powerful divisive influence there.

Mr. FRELINGHUYSEN. As I understand it, the long delay in arriving at some kind of tentative agreement was in an effort to listen to the problems of the non-nuclear powers, such as Germany, and to respond to their feelings and apprehensions as to what a treaty might mean.

I don't wish to take too much of the committee's time. I do think Mr. Findley has raised very interesting points and I am grateful.

Mrs. KELLY. Mr. Hamilton.

Mr. HAMILTON. Mr. Findley, I want to go back to a point Mr. Frelinghuysen touched upon.

It seems to me the major thrust of your statement is to emphasize a unified Atlantic policy, and yet at the same time later on in your statement—

Mrs. KELLY. Just 1 minute. Can the members hear?

Mr. FINDLEY. I can hear.

Mr. HAMILTON (continuing). And yet at the same time you emphasize initiatives, for example, by Germany, acting alone.

Don't you think there is an inconsistency there? If you follow your original thought, then Germany should act through the unified Atlantic policies, should they not?

Mr. FINDLEY. I would prefer that we had the institutions and the will yesterday to effect this cohesive policy, but it doesn't exist.

Pending that creation, I think it is promising that these new initiatives have occurred, especially from Germany, which is the core of the European problem.

Mr. HAMILTON. If that is true in the instance of Germany, might it not also be true of the interests of the United States emphasizing some initiatives on its own?

Mr. FINDLEY. I don't think you could draw a parallel between the initiatives of Germany and the initiatives of the United States with the Soviet Union on nuclear weapons, if that is what you have in mind.

Mr. HAMILTON. If, in your judgment, Germany can do some good things unilaterally in its relationships with the East, then perhaps the United States could do some good things unilaterally too, apart from the Atlantic Alliance.

Mr. FINDLEY. Yes, that is right.

I might say that I have suggested such a course of action—the conditions under which we should extend most favored nation treatment to the Eastern European countries.

Mr. HAMILTON. Would you favor the extension today, for example, of long-term credits or liberalizing our list of strategic goods? Would you favor either of these steps?

Mr. FINDLEY. I don't at the present time. I do favor the extension of most favored nation treatment to the countries that would accept the conditions in the marketplace that I have set forth here. Exception should be made to those countries who are sending military articles to Vietnam.

But I think that it is unrealistic for us in our present physical plight and budgetary problems, to be considering extra financing for countries that, if they are not hostile, certainly are not friendly.

Mr. HAMILTON. What countries of Eastern Europe today would you be willing to make some overtures toward?

Mr. FINDLEY. Well, based on the facts as I understand them—and I don't pretend to have all the facts—Rumania has made some very promising improvements in its external policy, too. It is not an unblemished record, but it is a promising one. Several months ago I suggested that at the same time we lift most-favored-nation treat-

ment from Poland because of its policies toward our enemy in Vietnam, we should extend it to Rumania in recognition of the liberalization that seems to be occurring there.

Mr. HAMILTON. On page 6 where you list your qualifications for granting most-favored-nation treatment—and you list there three—you don't have any restrictions there with regard to the Vietnam conflict, but I presume that overrides the entire matter?

Mr. FINDLEY. I think it must necessarily. I am sure you will recall that when we got into the Korean war our Government automatically lifted most-favored-nation treatment which was then extended to the Soviet Union and I think all of these eastern countries. And once we are in a war, even by proxy, we ought to be realistic about that fact.

Mr. HAMILTON. I wonder if you would take a moment to try to look at things from the vantage point of Eastern Europe. Do you see presently in the United States policy strong inconsistencies? For example, the President, in his October 7 speech of 1966, talks about "peaceful engagement" and then at the same time there are many things—the Battle Act and the Export Control Act, and amendments to the Foreign Assistance Act—which are based on the theory that we don't want to do anything to strengthen the Communist regimes at this time.

Now, faced with these two different approaches, it would appear to me from the standpoint of Eastern Europe they could be thoroughly confused about just what is our policy.

Mr. FINDLEY. There is a conflict between what the President at times has said and what he has been able to deliver. In that October speech he went far beyond what the temper of the Congress was and I think he went too far, frankly, in it, and he should have assessed the cooperation he could expect to get from the Congress before he went out so far in such statements.

I can see why this would appear to be an inconsistency, viewed from Eastern Europe.

Mr. HAMILTON. Your tendency then is away from the President's October 7 speech and more toward the restrictive attitudes of contacts and trade with Eastern Europe, and the building up of the Atlantic Community?

Mr. FINDLEY. As I understand the specific proposal the President presented to the Congress on East-West trade, there was no requirement that these three conditions be fulfilled in order for most-favored-nation treatment to be continued. They were set forth as desirable objectives, but they were not conditions, as I understand it.

Mr. HAMILTON. You would meet these three conditions?

Mr. FINDLEY. Absolutely, and once a government would cease to abide by the convention on copyrights, or on patents, or cease to agree to the adjudication of disputes in these international free world marketplace tribunals, as of that date they would cease to enjoy the advantage of most-favored-nation treatment. This could be reinstated once they return to the ways of the marketplace.

Mr. HAMILTON. Thank you.

Mrs. KELLY. Mr. Fulton.

Mr. FULTON. You have made an excellent statement. We Americans are hoping for more unity in the West. That assumes that we are on a level economically, politically and security-wise, entering into a

binding alliance in a method of operation which permits individual opportunities, which you seem to infer, or else we are going to get into an economic cartel. If we act as a unit in dealing with, for example, the Eastern European states, then I would imagine that they would act in unity under the Warsaw Pact. The question then is, do we want really to establish cartels in the West so that we all act together? Set prices, make allocations, and prevent competition among Western nations, both in price and in credit? I wonder about that. Are we then adopting the methods of the opposition in order to further our own cause in opposition to the policies? What do you think about that?

Mr. FINDLEY. I think it would be a serious mistake for us to attempt to compete in the marketplace with state-trading entities which don't abide by the practices of the marketplace.

Mr. FULTON. Are you speaking of the West or the East?

Mr. FINDLEY. Of the West.

You speak of the danger of cartels. Well, in a sense, each Communist nation state is an economic cartel which can very easily speak and act as one and usually does. I think almost without exception it does. So we are up against a cartel situation anyway, and the problem is how we can kind of get some cracks in it and knock some chinks out of it and hopefully bring it eventually into practices common to the marketplace.

Mr. FULTON. You speak of the wasting away of the Iron Curtain. Are you speaking economically, politically, socially, or security-wise—military power?

Mr. FINDLEY. I think the main advances have been economic though there is some sign of political advance too. Yugoslavia, for example, has been seeking a relationship with the European Common Market. It has been engaged in an internal development which hopefully will strengthen its marketplace system as opposed to a state trading system, so I think that is a promising development.

Mr. FULTON. Could I ask you the limits of your thoughts? Are you really seeking the destruction of the Communist system wherever it might exist, or the Communist regimes in whichever national area, geographically, they might exist, or are you talking of moving simply toward an open, economic world?

You see, to me you have said you have in it the political, the security, the social and the systematized approach. Do you mean that or are you just saying on the economic level, "Let us try within a limited range for a free world by a united Western policy?"

Mr. FINDLEY. I don't know of hardly anybody who advocates invading Eastern Europe in order to overthrow the Communist regimes there. Yet I am sure that all of us do have the hope that some day this thing called individual liberty will all be reestablished throughout that area. The question is, do we simply do nothing or do we try to use our economic tools, or nonmilitary tools so to speak, to effect some progress?

My proposal here is one which deals almost entirely with the economic approach. If we can get these governments to accept the practices of the marketplace, I think we can live with them in our marketplace system. This doesn't mean they are going to automatically modify their political, internal institutions, but maybe that will come later.

I don't think we should expect too much in the way of progress from the use of our nonmilitary tools.

Mr. FULTON. We are in the process of defining new goals. If you will look at page 4, you say, "A fourth consideration should be to realize our limitations"——

Mr. FINDLEY. That is correct.

Mr. FULTON. I should imagine either ours, the United States. [Continuing:] "In promoting external autonomy and internal freedom in these countries."

Now, that is the goal.

On page 5 then you say: "The United States has natural political limitations on its effectiveness because it is the preeminent leader of the Western World and therefore Eastern European leaders are naturally suspicious and on their guard in dealing with us."

I doubt that that is one of the causative factors, but I will accept it for the purposes here.

You end: "In every possible way the West should speak and act as one."

Now, you say with regard to our making definitions here, in our dialog, you are really limiting us in emphasizing the economic, but in your statement you say "in every possible way."

Mr. FINDLEY. Yes. I should add that I didn't read some parts of it in which I described the evolutionary steps that I think may eventually occur.

Mr. FULTON. Are you then in favor of the Johnson policy of building bridges not only between Eastern Europe and the West, but also between the U.S.S.R. and the West, and likewise between Communist China and the West?

Mr. FINDLEY. When you deal in labels you get into pretty deep trouble sometimes. I would have to have a better definition of what is meant by bridges before I would say that. I would say first of all, as I understand the bridges that President Johnson would like to build, I am very skeptical of them.

Mr. FULTON. The Johnson bridges?

Mr. FINDLEY. Yes. I do think there are practical two-way bridges that can be built.

Mr. FULTON. You have a new system of bridges?

Mr. FINDLEY. The Findley bridges.

Mrs. KELLY. Mr. Culver.

Mr. CULVER. I wish to thank Congressman Findley for his statement this morning.

Congressman Findley, is it your understanding that the basic policy of the administration toward East-West relations today is bottomed on a very serious effort to achieve the greatest degree of cooperation and coordination of Western European and U.S. attitudes and views in approaching the Eastern bloc?

Mr. FINDLEY. I believe the greater emphasis is upon unilateral bridge building with Eastern Europe as opposed to bridge building between our country and the Western European nations. If we would emphasize policies which would build greater cohesion within this Western community that most people regard as being NATO, then the relationship with Eastern Europe is going to be a much simpler and more productive affair.

Our emphasis has been on building bridges as a nation to Eastern Europe instead of strengthening the cohesion of the West and from that stronger more cohesive base dealing with other nations including Eastern Europe.

Mr. CULVER. I certainly agree with you as to the unquestionable desirability of moving in concert, and there will be additional strength in such an approach. I seriously disagree with you that the administration in the formal articulation of our policy, and indeed the serious efforts to implement it, have been characterized by unilateral approaches. I think that the administration and all those with whom I have spoken in both Eastern and Western Europe understand this very fully; that is, it is certainly not in the interest of the United States, having experienced two World Wars, to have a heightened nationalism or reversion to Balkanization of power blocs which we have worked very hard throughout the entire postwar period to see dissipated. I think on the one hand while we can welcome as a nation and as a people the independent stature that some of these countries have achieved, we certainly do not feel there is much strength as a matter of U.S. policy in seeing their independent policies pursued vis-a-vis the Soviet Union or Eastern Europe totally indifferent to the interests of their Western allies.

I wonder whether you really feel as a matter of basic U.S. policy we have not understood and fully appreciated that.

Mr. FINDLEY. I do not think we have fully appreciated the importance of cohesion with Western Europe. I will cite two examples; one we have described already, that is, the nuclear nonproliferation pact. I would have thought the United States, realizing how tremendously important a pact of this sort would be to its most essential allies within NATO would simply have not taken even the first step until there was agreement within NATO on what, if anything, should be done in the way of a treaty. If an agreement could not be reached within NATO, I would have thought it the better part of wisdom simply to put it on the shelf for a while.

Mr. CULVER. Could I respond one point at a time?

Mr. FINDLEY. Yes.

Mr. CULVER. Take the case of Germany, don't you feel there is a real possibility that German objections can be overcome in the weeks ahead given the fact that the much more frankly important and overall crucial thing is that the Soviet Union and the United States are agreed in this area. Say General de Gaulle does not agree in our initial preliminary discussion on a certain draft treaty, should we drop the whole concept and wait until General de Gaulle decides it is a good idea to move ahead?

Mr. FINDLEY. France is not part of the integrated command structure now.

Mr. CULVER. You think we can ignore France?

Mr. FINDLEY. I would hope we would not ignore France, but we have to recognize that France has seen fit to pull out of the integrated command structure.

From a military standpoint the French voice is less important by necessity today than it was before.

Mr. CULVER. I was interested in your carrot-stick approach. As both Mr. Frelinghuysen and Mr. Hamilton have indicated this is trouble-

some. On the one hand you are calling for a greater degree of cohesion and unity and employing phrases such as "improve our institutions," we "must have the will," we "must develop mechanisms to achieve cohesion." My question is, conceding, and I think we all do, that this is desirable and in the best interests of our country, how, if we are going to pursue on a unilateral basis this carrot-stick approach can we achieve cohesion? For example, given what we determine to be the U.S. interests in trade relations with Eastern Europe, regarding matters such as Vietnam trade, and as you suggest on page 6, "It is my contention before we extend most favorite-nation treatment to any Communist government we must insist upon three things"—presents real obstacles to unity of view. Today U.S. trade with Eastern bloc countries is about \$200 million. The trade of other Western nations with the Eastern bloc is 16 times as great. It is running about three and half billion dollars. It is all well and good for us to insist on unilateral ad hoc determinations that the carrot and stick should apply in a given fact situation, but how can you even wildly anticipate a participation on the basis of our formula, and on our own policy determinations and thus bring about a unified approach of all the Western countries in this area.

Mr. FINDLEY. I guess I risk repeating, but we do not have the institution cooperation we should in NATO. I would hope when we do achieve it, and I hope it will be soon, that this new unified unit that will speak and act as one will use the carrot and stick just as hopefully we would use it as an individual Nation, lacking such a community.

Mr. CULVER. Don't you think that Western Europe is delighted when they see the United States apply the stick and ignore the possible competitive threat? What do you think is resurrected in the heart of the German businessman when he sees denial of the most favored nation consideration by the United States toward a particular Eastern bloc country?

Mr. FINDLEY. I am sure you realize you cited a very powerful reason for us trying to achieve the unified approach so that the Western community will speak and act as one. It is in our national self-interest this will be achieved.

Mr. CULVER. In response to Mr. Hamilton's question you suggested out of the so-called satellite bloc countries one country that suggested itself as a possibility for carrot treatment was Rumania. You cited as justification for such special consideration the fact that it had apparently been pursuing with regard to external policies an independent line. Is it not a fact that of all Eastern European countries today, in terms of the nature of the totalitarian internal domestic society, Rumania remains for all its foreign policy flourishes, probably the most retrogressive state in terms of domestic climate, and probably the most unlikely to be implementing, in the immediate future, the liberal economic reforms set forth on page 6 as determinative of whether we qualify a country for carrot treatment. Is that not a fact?

Mr. FINDLEY. You have stated your opinion. I do not accept it, but it may be that I fail to accept it out of ignorance because you may be far better versed about that country than I. However, I believe Bulgaria, East Germany, and Albania are more internally rigid on personal liberties than Rumania. As you may remember, Rumania has in the last several years released thousands of political prisoners.

Mr. CULVER. What other country in your judgment, domestically speaking, has had a harder line with regard to internal Communist Party organization than Rumania?

Which other country has shown less willingness to even discuss in the councils of its own government modifications and improvization of the Communist economic system such as those which have taken place in Czechoslovakia, and of course in Yugoslavia.

Mr. FINDLEY. Yugoslavia and Poland are in a different category.

Mr. CULVER. I am interested in what criteria in this difficult area you adopt to determine when you apply the carrot.

Take Czechoslovakia. In the last week we have seen Novotny replaced by Dubcek. Most people view this as a move in a liberal direction, generally speaking, coupled with the very familiar efforts of the Czech Government to move in the area of economic reform.

In your judgment, wouldn't this represent an opportunity to improve and exploit a more liberal climate attractive to Western interests? What criteria do you adopt? Do you adopt the U.N. speech by the Rumania Government whether they will or will not attend the next worldwide Communist conference, or that they might agree to the trade terms you articulate on page 6?

Mr. FINDLEY. I am sure you would not have had an occasion to see it, but a few months ago I put in the Congressional Record a rather extensive study of Rumania. While I cannot, out of any great exhaustive study, compare it with Czechoslovakia, I felt there were enough internal changes and external changes, particularly in regard to the Vietnam war which would justify a favorable response on our part. That is why I think there is a time to use the carrot. Just as there has been a retrogression in Poland, I think it is very wise for us to recognize such retrogression when it does occur, even though Poland at any given time might be in a better position as far as internal freedom is concerned than the other country. I will insert my remarks on Rumania's foreign policy and other material in the appendix of the hearings. (See appendix, p. 235.)

Mr. CULVER. Thank you.

Mrs. KELLY. Thank you very much, Congressman Findley. I am sure the length of time we took to question you is a good indication that we intend to discuss this subject very fully in the course of our committee hearings. We are very happy to have your statement.

Mr. FINDLEY. Thank you.

Mrs. KELLY. Will Congressman Delbert Latta take the witness stand, please?

#### STATEMENT OF HON. DELBERT L. LATTI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. LATTI. Thank you very much, Madam Chairman.

Mrs. KELLY. We are delighted to welcome you here, Congressman Latta. Will you proceed as you wish?

Mr. LATTI. Let me say I was about ready to file my statement with the committee because as you know I am a member of the Rules Committee and we are in session this morning.

Mrs. KELLY. I am sorry that we could not reach your testimony earlier.

Mr. LATTA. This is a very important subject you are discussing.

Let me commend you, Madam Chairman, for taking it up in this committee. I well remember your appearance last fall before the Rules Committee when we were considering some 124 resolutions to create an Export Committee and we were not privileged to hear your testimony. I might say those resolutions are still pending before the Rules Committee and we are looking forward to your appearance at a later date.

I do not want my appearance here this morning to imply that I have already made a decision relative to those 124 resolutions. I shall, however, follow the deliberations of this committee and its endeavors to get into the nuts and bolts side as well as the foreign policy ramifications of this subject.

I think this subject must be observed more or less on a day-to-day basis. I served on the Export Control Committee of the 87th Congress, very ably chaired by a former member, Mr. Kitchin, of North Carolina. I think this committee made a very, very valuable contribution to the Nation. It stayed right with the subject day after day.

I think this is something which must be done in this very important field. This morning as we enter into this discussion of the question of East-West trade at a perilous time, it is a time in which Americans are engaged in battle in South Vietnam and in which an American ship has been captured in a hostile and aggressive manner by the Government of North Korea. It is a time in which the Soviet Union has been asked to mediate the ship's release, and has refused.

We face the problem of the administration's proposals, therefore, in a time of crisis and not of tranquillity. We face the question during a period in which Communist governments are becoming more aggressive, and not less so. We are asked to seek new directions at a time when Communist governments appear to be irrevocably wedded to the old.

Several important questions present themselves, for they relate to what appear to be inherent contradictions in the administration's proposals for liberalized trade relations with Communist countries.

A Presidential Commission on East-West Trade reported on May 6, 1965, that a relaxation of restrictions on trade between the United States and the Soviet Union and the Communist countries of Eastern Europe would help promote American foreign policy objectives.<sup>1</sup>

It is said that the only basis for its proposals was to make possible some "hard bargaining" by the United States for political advantage. Ordinary motivations, such as for economic or financial gains, have no place in trade relations with the Communist countries, it said.

It expressed the view that the possibility of influencing through expanded trade both the internal evolution and external behavior of Communist countries in Eastern Europe far outweighs any political or military risks involved.

At his press conference on October 7, 1966, President Johnson said that—

We will reduce export controls on East-West trade with respect to hundreds of nonstrategic items. I have just today signed a determination that will allow the Export-Import Bank to guarantee commercial credits to four additional

<sup>1</sup> Special Committee on U.S. Trade Relations With Eastern European Countries and the Soviet Union. (The Miller committee.)

Eastern European countries, Poland and Hungary, Bulgaria and Czechoslovakia. This is good business and it will help us—it will help us to build bridges to Eastern Europe.

This announcement was followed by a number of significant statements in support of increased East-West trade by such top-ranking members of the State Department as Averell Harriman, Nicholas Katzenbach, Eugene Rostow, and Foy Kohler.

Perhaps the most outspoken criticism of opponents of East-West trade came from Ambassador Averell Harriman who, on the November 23, 1966, NBC-TV program, "The Today Show," labeled the opponents of trade as "bigoted, pigheaded people, who don't know what's going on in the world, that have prevented us from helping our balance of payments."

There is a certain contradiction here. The Presidential Commission said that the reason for increased East-West trade was not our balance of payments, as Ambassador Harriman urged, but political. If we have liberalized conditions within Communist countries, and have caused them to pursue a less aggressive foreign policy, such trade would be considered successful.

Which is the administration's reason for urging liberalized trade with Communist countries? Is it political, or is it economic? Is it to "build bridges to the East" or to assist our balance-of-payments problem?

Before any decision can be made with regard to the proposed program, it is essential that we know what its goals are to be.

But it seems clear that the administration has not abided by the recommendations of the President's Commission. The Commission urged that trade relations with Eastern European countries and the Soviet Union " \* \* \* should not be subsidized, nor should it receive artificial encouragement." Yet, the administration has recommended such measures as the financing of deals between Fiat and the Soviet Union through the Export-Import Bank.

Is it the proposed policy to subsidize trade with Communist countries? If so, how will this assist our balance-of-payments problem? If not, why has the administration urged such action?

The President's Commission stated that—

We rule out from these considerations any kind of strategic trade that could significantly enhance Soviet military strength.

The 16th Battle Act Report stated clearly that—

The basic policy underlying the Mutual Defense Assistance Control Act (the Battle Act) is one of preventing, to the extent that we are able, the shipment to the Sino-Soviet bloc of strategic items which would contribute significantly to the military-industrial potential of the bloc.

In 1966 the Commerce Department relaxed export restrictions on about 400 "nonstrategic" commodities for shipment to Russia and Eastern Europe.

I might stop at this point to raise a question that was raised in my mind when suddenly, overnight, 400 strategic items suddenly became nonstrategic. This might be an area for this committee to investigate. Among these were textile products, some metal manufactures and machinery, foodstuffs, chemical materials and products, and a variety of manufactured articles. These can now be exported to Eastern

Europe without prior specific approval of the Commerce Department.<sup>2</sup>

The facts seem to contradict the policy. They also contradict the statement made to the American people by President Franklin D. Roosevelt in May of 1940. He said that—

The American people will not relish the idea of any American citizen growing rich and fat in an emergency of blood and slaughter and human suffering.

This was more than a year before Pearl Harbor, and at that time no Americans were fighting either in the European or Asian wars. Today, in the face of Vietnam and the current Korean crisis, our attitude is far different. As a result of President Johnson's order of October 12, scrap iron and scrap steel are back on the "approved" list and the junk peddlers are sending it over to Russia to help build the Russian war machine just as was done with Japan in the late 1930's and in 1940.<sup>3</sup>

What does the administration mean by "strategic goods"? On May 9, 1967, our Government approved a shipment of polyvinyl butyral valued at \$268,975. This product is primarily used as an interlayer in bullet resistant glass.<sup>4</sup>

According to a top missile expert, C. Stark Droper:

The key area for advance in control and guidance is still the region in which the basis limitations exist—that is, the high-accuracy sensing of geometrical information.

On February 1, 1967, the Commerce Department authorized shipment of just such an instrument, a Worden gravimeter.<sup>5</sup>

Prior to removing a number of items from its category of "strategic" goods the Department of Commerce issued a press release declaring that the items removed " \* \* \* fall into the category of peaceful goods, which may be freely exported without risk to the U.S. national interests."<sup>6</sup> It also asserted that it had " \* \* \* consulted with other interested departments, including Defense, State, Agriculture, Interior and the intelligence community, in taking this step."

The evidence points to the fact that the administration did not consult the intelligence community at all. The Director of Naval Intelligence states: "The Office of Naval Intelligence, definitely a member of the 'intelligence community', had no part in the consultation which preceded the revision of the commodity control list."<sup>7</sup>

The Air Force stated that "No intelligence office of the U.S. Air Force participated in the revision of the current commodity control list."<sup>8</sup>

The Army stated that the Assistant Chief of Staff for Intelligence "was not consulted regarding the commodities listed."<sup>9</sup>

<sup>2</sup> Current Export Bulletin No. 941, U.S. Department of Commerce, Oct. 12, 1966, "Revisions in Commodity Control List."

<sup>3</sup> Ibid.

<sup>4</sup> Daily Bulletin, Export Licenses, May 9, 1967.

<sup>5</sup> Congressional Record, July 13, 1967, p. S 9537. Daily Bulletin, Export Licenses, Feb. 1, 1967.

<sup>6</sup> Ibid.

<sup>7</sup> Letter to Representative Glenard Lipscomb from E. B. Fluckey, Rear Admiral, U.S. Navy, Director of Naval Intelligence, Oct. 26, 1966. (Letter may be found in its entirety in the Congressional Record, Jan. 17, 1967, pp. H257 and H258.)

<sup>8</sup> Letter to Representative Glenard Lipscomb from Jack E. Thomas, Major General, U.S. Air Force, Assistant Chief of Staff for Intelligence, Oct. 28, 1966. (Letter may be found in its entirety in the Congressional Record, Jan. 17, 1967, p. H 258.)

<sup>9</sup> Letter to Representative Glenard Lipscomb from Raymond T. Reid, Lieutenant Colonel, for J. L. Blackwell, Colonel, GS, Office, Chief of Legislative Liaison, Oct. 25, 1966. (Letter may be found in its entirety in the Congressional Record, Jan. 17, 1967, p. H 258.)

The Department of Defense said that the Defense Intelligence Agency "was not requested to supply intelligence on the 400 commodities that are covered in Current Export Control Bulletin No. 941."<sup>10</sup>

If the administration really intends to increase trade only in non-strategic goods, we feel it essential that it tell us exactly how such a determination was made, and is to be made in the future.

I think this is an area that this committee could rightfully get into.

What is a nonstrategic good? On March 10, 1966, and again on August 16, 1966, the Commerce Department approved shipments of diethylene glycol worth \$482,250.

This chemical is used in the manufacture of explosives and liquid rocket propellants. It can also be used as plasticizer in solid rocket propellants of the type suitable for air-to-air missiles such as are used in Vietnam. Under what definition is the item considered "non-strategic?"<sup>11</sup>

Setting forth the State Department's view of East-West trade, Eugene M. Braderman, Deputy Assistant Secretary of State for Commercial Affairs and Business Activities, said that "one of the most important premises is the fact that these countries differ very considerably among themselves, both in their internal systems and in their relations with one another \* \* \*." He noted that "\* \* \* in consequence, U.S. policy expresses itself in different ways toward different Communist countries."

Mr. Braderman conceded that "in some instances the behavior of a Communist country will warrant our denying trade with it completely \* \* \* in other instances it best serves the U.S. interest to encourage trade with a Communist country."

Since the Soviet Union represents a case of that kind of Communist country with which the Department of State seeks to increase trade, it is interesting to see what the Soviet Union's relationship is with a Communist country with which the Department of State does not wish to trade; namely, North Vietnam.

The administration will, of course, not trade with a Communist government which is shooting at Americans. But, does the administration advocate increased trade with a country which is in turn supplying our enemy with the means of war?

In an extensive study of Soviet aid to North Vietnam, Prof. Albert Parry, chairman of Russian studies at Colgate University, points out that "\* \* \* it is estimated that the 10 years through 1964 Soviet aid to North Vietnam totaled some \$350 million. It faltered somewhat in 1963 and 1964 when Khrushchev apparently was resigned to seeing the country in China's orbit \* \* \*. But Khrushchev's successors have revived the Soviet interest in Ho Chi Minh \* \* \*. Moscow's exports to North Vietnam rose from \$47.6 million in 1964 to more than \$74.8 million in 1965—this is of course in addition to some \$555 million worth of arms sent in 1965 alone."<sup>12</sup>

<sup>10</sup> Letter to Representative Glenard Lipscomb from C. R. Roderick, Major General, U.S. Air Force, Director, Department of Defense Legislative Liaison, Oct. 27, 1966. (Letter may be found in its entirety in the Congressional Record, Jan. 17, 1967, p. H 258.)

<sup>11</sup> Daily Bulletin, Export Licenses, Mar. 10, 1966.

<sup>12</sup> "Soviet Aid to Vietnam," by Albert Parry, the Reporter, Jan. 12, 1967, p. 28. Speech by Representative Melvin Laird in the House of Representatives, Mar. 23, 1967.

In March 1966, the Soviet Union replied to Chinese charges that Soviet help to Hanoi was insufficient and represented a lack of interest in the conflict. The Moscow leaders sent a confidential letter to Communist leaders stressing that in 1965 North Vietnam received from the Soviet Union arms and military equipment worth half a billion rubles. The list included rocket installations and conventional antiaircraft guns, Migs and other planes, tanks, coastal artillery, and small warships.

Since the fall of 1965, the number of conventional antiaircraft guns in North Vietnam has risen from 1,500 to at least 5,000.

One official estimate puts the figure at 7,000. In the fall of 1965 there were only four North Vietnamese batteries firing SAM's. By early October 1966, this number had risen to 25 or 30, each with six launchers.<sup>13</sup>

As recently as September 23, 1967, the Soviet Union concluded a series of agreements with North Vietnam, providing for continuing deliveries of military and economic aid to Hanoi in 1968. A joint communique issued at the conclusion of about a month of negotiations specified that the military material would include ground to air missiles, planes, and artillery.

The Russians may speak of "peaceful coexistence" but their actions point in the opposite direction. They may speak of better relations with the West, but as they train North Vietnamese soldiers and airmen, and provide the North Vietnamese with the weapons of war, it is hard to believe that they are being sincere.

How can the administration reason that it is wrong to trade with North Vietnam, but proper to trade with the Soviet Union which is the chief supplier of the North Vietnamese military machine? Are we not, in either case, aiding the enemy?

There are other serious questions which we believe must be answered before any action is taken on the administration's proposals. If the goal of such trade is to liberalize the Communist regimes of Eastern Europe, what evidence is there that the East-West trade up to this point has done so?

Is it not true that after many years of American trade and aid Yugoslavia is closer to the Soviet Union than before such trade and aid began? Is it not true that there is less freedom in Poland today than in 1956 at the time we began aiding that country after its revolt against the authoritarian nature of its government?

It is essential that we not embark upon a new policy in the area of East-West trade without carefully considering the questions posed here. It would be a perilous step for our country to do so if the answers to such questions are not completely satisfactory.

I believe it is up to this committee if it gets into this field, and I am certain that it will, that these questions be asked and answered.

Mrs. KELLY. Thank you so much, Congressman Latta.

May I extend to you my apologies for keeping you here so long. I know that you must return to your committee. We regret that we won't have the opportunity to question you as we would like to.

However, before you leave, I want to say something about the hearings conducted last fall by your committee, the Committee on Rules, on legislation proposing the creation of a Select Committee on East-

<sup>13</sup> Ibid.

West Trade. I hope you realize that the Committee on Foreign Affairs did not have an opportunity to present its views on that proposal even though we attended your hearing and requested such opportunity. I have felt very badly about that.

Mr. LATTA. I realize that, Madam Chairman.

Mrs. KELLY. I felt that those who did testify did an injustice to a committee which has been carrying on hearings relating to the many issues involved in East-West trade. I also feel they were negligent in not having read the reports and the hearings of our committee bearing on this very subject.

Mr. LATTA. If I may say at that point, if and when these hearings resume before our Committee on Rules I am certain that the chairman will give you an opportunity to be heard.

Mrs. KELLY. I do want to state one further point. In your presentation you questioned how 400 "strategic" export items could suddenly be declared "nonstrategic" by the President. I believe that in October 1966 the 400 items to which you referred required individual licenses for export to the East, but were not "strategic" and were in fact being exported to the East. I wanted to clarify that point.

Mr. FRELINGHUYSEN, do you have any questions of our colleague?

Mr. FRELINGHUYSEN. Thank you, Madam Chairman.

I would like to commend the gentleman for his testimony. My only question is with respect to Eastern Europe where you pointed out the importance of taking a close look at whether goods that are allowed to be traded are strategic or not, you also stressed the inadvisability of strengthening Russia since she is now supplying so much to North Vietnam. Your position on Eastern Europe seems to be a little less clear. You pointed out that not much has been accomplished in Yugoslavia or Poland in spite of our trade. I gather this means that you feel that an increase in trade on our part with Eastern Europe is not desirable?

Mr. LATTA. I think it deserves a reexamination. You may not be putting it quite accurate to say it is not desirable at all, but certainly not in strategic items that could possibly find their way to North Vietnam.

Mr. FRELINGHUYSEN. I understand your point about strategic items, but you did not argue that Eastern Europe is supplying these.

Mr. LATTA. On nonstrategic items I do not think it matters too much.

Mr. FRELINGHUYSEN. My concern is, and we had this discussion with Mr. Findley, that if we do not trade, this creates an opportunity for Western Europe, and yet if we should try to get together with Western Europe, it would almost surely mean a liberalizing of our policy rather than a restriction on their policy.

Are you opposed to any attempt, or do you think it is unrealistic, to try to get together and have a common allied Atlantic community approach to this problem?

Mr. LATTA. The gentleman is certainly aware of the COCOM that has been in existence for many years. This Committee is composed of the NATO nations with the addition of Japan. It has not been successful. The COCOM list does not contain, shall I say, all the strategic items that our list contains. I think this would be a good area, if this committee is going to get into this field, to check with these COCOM

nations to see whether or not there could not be some tightening up on the COCOM list since we are a member.

Mr. FRELINGHUYSEN. Thank you.

Mrs. KELLY. Mr. Hamilton.

Mr. HAMILTON. Let me just pursue that a little further, if I may. First, I think you have rendered a real service by pointing out to us the importance of the strategic and nonstrategic goods distinction. I am not clear as to your own view on so-called nonstrategic items. I recognize that there can be considerable debate what is nonstrategic and what is strategic. Assuming for a minute we are talking clearly about nonstrategic items, do you favor overtures by us toward Eastern European countries in trade in these items?

Mr. LATTA. Nonstrategic items?

Mr. HAMILTON. Yes.

Mr. LATTA. Certainly. I think that is the only way you are going to build lasting bridges, so to speak. If you are going to have peace in the world I think you have to do that. As I attempted to point out in my statement, the thing we have to do is to draw the line on the things that are strategic or could become strategic in time of war.

Mr. HAMILTON. Thank you, Madam Chairman.

Mrs. KELLY. Mr. Fulton.

Mr. FULTON. You have made an excellent statement and your facts are certainly worth further consideration. I believe we should have put in the record the statements of the sources you mentioned, of dates and through what means these statements were made by the various governmental departments with regard to consultation. If you will supply that for the record, I will appreciate it.

Mr. LATTA. I will be glad to supply it in the form of footnotes to my opening statement.

Mr. FULTON. When we talk about a unified Western policy, my feeling is that we should first get a unified U.S. policy. To me there is none at this point. As a matter of fact, from time to time it is a policy of opportunism rather than one of principles. For example, on consultation, another Government agency of high standing that was not consulted as far as I know is the National Advisory Council on International Monetary and Financial problems. The NAC. That is under the Bretton Woods Agreement. In this particular era when the balance of payments is becoming most important, it seems unbelievable there has not been an active participation in such transactions and policies by NAC. For example, the Departments of State, Treasury, and Commerce, as well as the Export-Import Bank and AID are all in this, but no action. Likewise, they have the duty of coordinating the International Monetary Fund, the International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Bank, International Development Association and also the new Asian Bank.

When we have all those channels under the supervision of the NAC, and there has been no participation as far as the public is concerned in such decisions, I believe it is time we unify our policy on strategic goods and finance. I do not see it at the present time in the present administration. I want to compliment you again and I do feel you have pointed a way for a set policy method rather than opportunistically approaching this matter. Thank you.

Mrs. KELLY. Mr. Culver.

Mr. CULVER. Thank you, Madam Chairman.

I also wish to thank Mr. Latta for coming forward with his statement today. I know it will be helpful to the committee in its consideration of this difficult area.

I would like to point out again that the 400 items that I believe you have reference to, which figured in the October 1966 action by the administration, were a so-called decontrolled list. They were for export to the East. They required individual licenses before that specific action was taken.

These, I wish to emphasize, were not considered strategic goods at that time by any definition. They would be exported if licenses were made available. The President's action simply removed the requirements of individual licenses and allowed these items to be exported to the East, but not Red China, under general license. I think it is important to clarify that point. They were not considered to be strategic items.

Reading now from our hearings, "Recent Developments in East-West Relations" in January 1967, the action was taken to implement the President's speech of October 7 in which he stated, "We will reduce export controls on East-West trade with respect to hundreds of nonstrategic items." They were so characterized at that time.

I think that is important for the purpose of clarification regardless of how we can argue on the merits of a given item and whether or not it was erroneously classified at the time of that action.

Mr. LATTA. May I comment on that?

Mr. CULVER. Certainly.

Mr. LATTA. Let me say this once again comes to the question of definition, what is a strategic item and what is not. We cannot lose sight of the fact that prior to the time the President released these 400 items, you had to have an export license to export them. The question arises, Why an export license if there was not some reason for requiring it in the first place? You can say under my definition that an item was strategic, as it required an export license, and your definition is that it was not strategic. But the basic question remains, Why did they have to have an export license prior to that time to export all of these given items?

Mr. CULVER. I think it was a very useful observation. I think the only way we can approach responsibly whether or not the definition is appropriate is to properly refer to these items as presently classified.

Mr. LATTA. I think this is a good subject for this committee to consider, to determine what is and what is not strategic.

Mr. CULVER. The one question I had, Congressman, was this: I think it is easy to talk glibly about strategic and nonstrategic. I think you would acknowledge that. It is another thing, I think, to develop guidelines and rules which we can be comfortable with and at the same time pursue what you acknowledge you are interested in, and that is trade to the appropriate areas.

I was interested whether you would consider textiles to be strategic goods?

Mr. LATTA. Let us take a textile that you can make a parachute from; that would be a strategic item in my judgment.

Mr. CULVER. What if you could make an army uniform from it?

Mr. LATTA. If you could get it next door from another country without any trouble at all, I would say "No."

Mr. CULVER. Then your definition would be if it was available at another source.

Mr. LATTA. How difficult the item would be to secure. I think a lot of factors would have to be considered. I think the matter of credit would also have to come into determining whether or not an item is strategic. If they cannot buy a certain item from another country without putting the money on the barrelhead, and they did not have the money to buy it, but they could buy it from us on credit, then I think you have another question.

Mr. CULVER. They are only buying from us around \$200 million a year, the whole Eastern bloc. They are buying close to three and a half billion from other Western countries and trading partners. They are trading with each other. My question is, What about something like food? They can get it somewhere else. They did when certain trade discussions with us broke down.

I think the extent to which any item they obtain from us, even if you could not find it used in a direct military context, would certainly alleviate the pressure on the allocation of their own individual resources and trade resources from other areas; would it not?

Mr. LATTA. That is correct.

Mr. CULVER. That would really cut in the direction of no trade, would it not, if you found yourself to be that sensitive as to what is a strategic or nonstrategic good?

Mr. LATTA. I do not think you can cut it that fine.

Mr. CULVER. Can you cut it much finer than \$200 million?

Mr. LATTA. I think you could if you get into such items as Worden Gravimeters and cut them out. This is just one example.

Mr. CULVER. Thank you.

Mrs. KELLY. Thank you so much for your appearance, Mr. Latta.

Mr. LATTA. Thank you very much.

Mrs. KELLY. I understand that our colleague from Georgia, the Honorable Benjamin B. Blackburn, does not have a written statement, but would like to address the committee. We will welcome his testimony.

#### STATEMENT OF HON. BEN B. BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. BLACKBURN. I certainly cannot elaborate any further than Mr. Latta just did. I think his statements were very thorough and well documented. There is just one facet of this whole subject of East-West trade to which I want to address my attention. I feel that not enough attention has been given to it. This is relative to the same points that Mr. Culver was just raising as to what is strategic and what is nonstrategic.

Last year in the Banking and Currency Committee, we took up the question of the proposed Fiat deal relative to Export-Import Bank participation. I noticed in the testimony on behalf of the administration's position we were constantly being told that the construction of a small automobile plant in Russia would not further the war capacity of that nation. It is my very firm belief, and the whole purpose of my being here, to state that it is impossible to build up a part of a nation's

economy without building up its warmaking capacity. I will leave up to this committee, and those who are far more expert and experienced than I, the question of the foreign policy implications of trade, but I do feel that this committee should view very strongly that any building of the capital base of another country definitely furthers the warmaking capacity of that country.

It is my opinion, and I think most economists and military experts would agree, that the ability of a nation in our industrial society to wage war is directly proportional to the ability of that nation to provide for its own domestic needs; that is to feed, house, and clothe its domestic population, and have left over a surplus of production which can be devoted to war purposes. So I think that there is some degree of fallacy in the argument that we can build up the domestic economy of a country and not strengthen its warmaking capacity, particularly with regard to the Fiat proposal.

The administration officials testified that without doubt a small automobile could be used to carry workers to and from the plants. We recognize that one of the strengths of our economy is the great mobility of our people, the fact that our workers can live 10 miles from the plant and have their own automobiles that they can use to travel back and forth to their plants. To summarize my position, I do want the committee to take into consideration that any building of the capital base of another country, even in domestic consumption matters, can be a strengthening of that country's war potential. Personally, I recognize that there is some need for expanded trade. But I feel that at this time in history with the hostilities that are both open and latent between the capitalistic countries and Communist countries, we should try to confine that trade; that is, our exports, to consumables which would be consumed within a short period of time, and they should be sold on strictly a cash basis. I do not think we should subsidize Communist countries.

Mrs. KELLY. Thank you so much, Mr. Blackburn. I would like to bring to your attention the fact that in the hearings to which Mr. Culver referred earlier, the Committee on Foreign Affairs, this particular subcommittee, discussed the issues involved in the Fiat transaction. I was one of those who opposed that transaction.

At this point I would like to say if you wish to submit any additional statement for the record, you may do so.

Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. I have just a brief question, Madam Chairman.

You suggested that in our trade with Communist countries we should try to concentrate on consumables on a cash basis only. Do you differentiate between the countries with which we might be trading? In other words, it is easy to argue against trade with the Soviet Union because it is so big and it does have a warmaking potential that could be a direct threat to us and presumably is being utilized in helping North Vietnam. How about Eastern Europe? Should we differentiate between individual countries and encourage trade with some and discourage trade with others? How do you feel about this business of trying to get a common allied position? Needless to say, as Mr. Culver has brought out repeatedly this morning, the Western European countries show none of the qualms that we have about trade. They are not as concerned as we are about building up warmaking potential in-

directly or indirectly. So our denial of opportunities creates additional opportunities for them. Would you like to comment on those two points?

Mr. BLACKBURN. I would draw a distinction between various Communist nations. I think to the extent, and here again I am getting into a field that I think others are more expert on, I do feel that there are some Communist regimes which perhaps are showing some independence from the Soviet Union. To the extent that trade would tend to break up the Communist establishment, I would be more favorably inclined to them than I would some others, particularly the Soviet Union itself.

I understand Rumania is showing some independence now. As I understand there are some differences of opinion as to what extent the domestic situation in Rumania is desirable or undesirable from our standpoint. To the extent that their thinking is becoming more independent along the lines of Yugoslavia, for example, I think it should be encouraged. I think the economic strength of this Nation is one of the valid weapons we can use in the cold war.

Mr. FRELINGHUYSEN. Do you think there is any possibility of getting a common policy with other Western nations? In other words, liberalizing our position rather than expecting other countries to restrict their trade.

Mr. BLACKBURN. One of the reasons I favor the sale of consumables, and I will relate this to your question, is this: If we can get some Communist countries dependent upon this country for the purchase of wheat or something else on a continuing basis, to some extent, it would make that country less likely to take hostile action against us because they are dependent upon us for some of their supplies.

Mr. FRELINGHUYSEN. As a practical matter that is not really what they want from us. They want the know-how and technology. All they have to offer are consumables.

Mr. BLACKBURN. That is why I would not be anxious to see us sell them highly sophisticated electronic equipment and things of this sort. I think that the sale of a highly technical piece of equipment represents a great deal more to the Communists than it does to us as far as our financial rewards are concerned. They can get a prototype. They get a device and they can utilize, study, improve on, and use as a model for their own technology. I do not know how we are going to be able to persuade the other Western nations to go along with our thinking.

You ask, should we try to persuade them? Yes, I think we should try to persuade them. As a practical matter, I do not know what we can do. We certainly do not control their destinies, and Mr. de Gaulle has shown that to be quite true in recent months.

Mr. FRELINGHUYSEN. Thank you.

Mrs. KELLY. Mr. Culver.

Mr. CULVER. Thank you, Madam Chairman, I also wish to compliment and thank Congressman Blackburn for coming forward and expressing his interest and for his contribution to the committee this morning. I was interested in your statement about the trade in turn strengthening war potential.

The inference was the likelihood that this would lead to war.

Mr. BLACKBURN. No, I am not saying it is likely going to lead to war.

Mr. CULVER. Increase its ability to make war.

Mr. BLACKBURN. Certainly the Soviet Union is today benefiting from supplying goods to North Vietnam to the extent that she can invest \$1 in North Vietnam, and it costs us \$30 to combat it.

Mr. CULVER. I wonder if we can fairly assume that the ability to make war and the ability to aid and abet war necessarily increases the probability that war will be undertaken.

Mr. BLACKBURN. I think it is somewhat moot to argue about the possibility of war. We are very actively engaged in a war right now in Vietnam.

Mr. CULVER. I just mean as a hypothetical situation because I think it goes to the heart of the question, whether or not the political benefits to the United States are offset by the acknowledged economic value to the nations we are trading with. If we are going to make a tough-minded judgment as to what constitutes U.S. self-interest, then the question is whether this increase in the living standard of these countries is offset by the political values to us which some feel are likely to ensue from such developments and thereby lessen the prospects and the probability of military confrontation generally speaking.

Mr. BLACKBURN. I can see the basis for such an argument, and that is, to the extent that we make happy Communists we will have less belligerent Communists. You will recall I prefaced my remarks with the statement that at this point in history I do not think we can view it as a hypothetical question.

Mr. CULVER. Is North Vietnam at war and was North Korea at war because they were "have" countries or "have-not" countries? Does not North Korea desire power and control in the South because of certain advantages economically and geographically that she sees in that area?

Mr. BLACKBURN. I would be inclined to think that the foreign policy is affected to some degree by the economic ambitions of countries. I think the Communists utilize the economic problems of these poor nations and capitalize upon them to further their own political purposes. I would not say that North Korea went to war with South Korea just because South Korea had some rice fields or anything of that sort. I think it was purely a political move. I think the Vietnamese war is motivated 90-percent politically.

Mr. CULVER. And 10 percent rice.

Mr. BLACKBURN. They would certainly like to have the rice, too.

Mr. CULVER. I have one last question.

Mr. BLACKBURN. If it were purely economics it would be more to the benefit of any country, North Korea or North Vietnam not to wage war. One of the most expensive forms of foreign policy is to wage war. If they were really motivated by economic considerations, they would not resort to war. They would open up the doors to trade with South Vietnam and North Vietnam and South Korea and North Korea. They are not motivated solely by economics.

Mr. CULVER. The last question I have is this: Don't you think that the relative standoff hopefully that can be maintained with the Soviet Union is brought about to a certain extent by the stake that great power now has in the preservation of peace and the general standard of living their people now enjoy? Conversely, the risk of war with a country such as China might be markedly increased, might it not, because of the fact that there is not as much to lose in a military conflagration?

Mr. BLACKBURN. I would like to feel that is true, but recent developments do not indicate to me that it is true. The fact that the Soviet Union is continually supplying goods to North Vietnam when I have no doubt if she were to stop supplying North Vietnam with goods, they would soon run out of ammunition for their guns and we would be in a lot better shape over there ourselves. The fact that the Soviet Union would defend very actively and in fact act as the advocate for North Korea in the incident of the *Pueblo*, the fact that she continues to export agents to other parts of the world, she encourages Castro to stir up trouble in Latin America, I cannot look at these events and say that the Communists have gotten soft on capitalism.

I think they are actively engaged in the cold war.

Mr. CULVER. Thank you.

Mr. BLACKBURN. I enjoyed being with you.

Mrs. KELLY. Mr. Whalley.

Mr. WHALLEY. Thank you, Madam Chairman.

I just want to compliment Mrs. Kelly and the European Subcommittee for holding these hearings on East-West trade, certainly a subject that is very important to all of us. I think it is fine that the Members of Congress are presenting statements, and also that others on the outside will have an opportunity to be heard. I do not have any specific questions at this time, Mrs. Kelly. Thank you very much.

Mrs. KELLY. Thank you, Mr. Blackburn.

I want to thank the witnesses who have appeared this morning for their fine presentations.

At this point, if there is no objection, we shall place in the record a number of statements submitted by other Members of Congress.

There was no objection.

(The statements follow:)

STATEMENT OF HON. LEONARD FARBSTEIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Madam Chairman, the steady expansion of the volume of trade between the communist countries generally grouped under the heading of the "East" and the rest of the world, conveniently identified as the "West", must be characterized as one of the striking economic phenomena of our times. It is sufficient to point out, by way of example, that between 1962 and 1966 exports from the industrial West to East Europe increased by some 60 percent, from 2.4 to 3.9 billion dollars. Similarly, import trade increased by about the same margin.

The fact that this exchange of commercial trade has been growing at such an active pace—in spite of the very real unresolved international problems between the West and the East—seems to me to be a matter of incontestable political significance. We may be almost certain that this growth has not come about as a result of any unusual skill in salesmanship employed by the commercial representatives of the Western business community. Salesmanship does not count for very much where the state-trading agencies of the East are involved. These agencies, as we know from past experience, are staffed with highly professional procurement specialists, who are under orders to concentrate only on items included in the official import plans, and to buy only from the most competitive suppliers.

We are thus justified in concluding that the products currently being imported from the West are urgently needed by the countries of the East. We may also be quite certain that these goods are needed for the purpose of raising the productivity of their national economies.

For instance, we find that the emphasis is heavily concentrated on items of industrial importance. Three categories of merchandise, for example, account for two-thirds of all Western exports to the East during the year 1966. These are: machinery and equipment (\$1,239 million); metal and other manufactures (\$763 million); and chemical products (\$467 million).

The implications of the basic economic facts underlying the flow of East-West trade are, therefore, quite clear. They are also worthy of our serious consideration. We need to begin by considering the fact that the political leaders of the East work under a variety of pressures, that they pursue a wide range of goals, not all of which are in keeping with our own national interest. Neither can we ignore the fact that the pressures for domestic economic improvement and relaxation within the individual countries of the East are becoming steadily more irresistible.

The East European countries would like, for example, to acquire the necessary modern industrial processes and skills for the mass production of automobiles. This has been clearly shown by the contract signed by Russia in May 1966 with Fiat of Italy to design and build a plant equipped to produce 600,000 passenger cars a year. We may be certain that there are other types of consumer durables which the countries of East Europe would like to introduce into their economy without having to repeat the costly research and development effort which countries like the United States had to expend to master their production. It is a fair guess that the leaders of these countries know that there is no substitute for Western technology, where some 75% of the world's industrial research and production is concentrated at present. We can assume, then, that the Eastern nations are gradually discovering that they have an important stake in the stability and continuity of their trade with the West. It would follow that it would be in their long-term interest to maintain a climate of normal economic and political relations with the world-wide industrial community, on the reasonable assumption that an atmosphere of reduced tensions would be far more conducive to a normal exchange of commodities, patents, licenses, and know-how among countries. This is the only route, it seems to me, by which the countries of Eastern Europe could most directly and expeditiously increase the efficiency of their production system and, as a consequence, raise the standard of living of their citizens.

In periodically re-examining our policy with respect to East-West trade we need to address ourselves to one fundamental question, namely is there an opportunity for us in this area of legislation to make a positive contribution toward relaxing tensions between the East and West. We need not believe, of course, that in these troubled times external trade is powerful enough an instrument to eliminate the whole complex of political differences that have existed between the East and the West over the past two stormy decades. But, we are justified, I believe, in moving in the direction of reducing some of the more onerous restrictions on the ability of the East to bring their commodities into our markets.

There are many categories of industrial production in which the United States has unique capabilities, over and above those developed so far in West Europe. There is no doubt that the East European countries are aware of these opportunities and would under more normal conditions be interested in acquiring advanced productive equipment and industrial processes that are unique to this country for incorporation in their own economies. By the same token it would be in our own interest to encourage the nations of East Europe to develop a stake in the maintenance of normal political as well as economic relations with this country.

At present, there is obviously a serious lack of mutual confidence between the United States and the East. There is an equally obvious disinclination on both sides to raise existing levels of tension or to resort to a military resolution to our differences. Given these clearly discernible conditions, it would seem to me that expanding the flow of trade could serve as a useful means of relaxing international tension.

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STATEMENT OF HON. E. ROSS ADAIR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Madam Chairman: It gives me a great deal of pleasure to present my views on the subject of East West trade. It has long been my feeling that this topic needs a thorough airing in view of the conflict in Vietnam and the seemingly contradictory policies of the present administration in this regard.

My position on this matter first of all should be made clear. I oppose any expansion of such trade at this time. Any expansion of trade now is just not sensible when these same people are supporting and supplying our foes in North Vietnam.

I am aware that several arguments are usually offered to bolster the idea that an expansion of East West trade would be a helpful thing. One of these is that it

would somehow improve our relations with these countries. However, this proposition is not provable. We have only to look at history. One of our greatest trading partners has always been Germany and we have fought two World Wars with her.

Another argument that is sometimes advanced is that if we do not sell these products to the Communist nations, other countries in the Free World will. This is only true to a limited extent. Many techniques and products are uniquely our own and are not available from other nations.

A third and perhaps a very persuasive argument used by the proponents of this proposition is that this trade will help our world trade position and make profits for our businessmen. But is this true? We have been through several cycles of expanded trade with the Soviet Union. One of these was immediately after we extended diplomatic recognition to her in 1933 and the other during World War II. In both cases great hopes were built up by our businessmen, only to find that the Soviets wanted long term credits and were really not ready to purchase much from us. They still want long term credits. They are short of convertible currency and are not likely to pay in cash for anything they buy. The West Germans have found this out, and they have gone all out in this field. Our private enterprise businessmen will have great difficulty with a barter economy.

Aside from the considerations I have just mentioned, it is my feeling that we should not export our technology to a nation which will pirate that technical knowledge to our detriment. The Soviet economy seems now to be on a plateau, strained by poor farm performance, the need of new capital investment, the support of North Vietnam and Cuba, and in my view we should not assist her in finding a way out of her problems.

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STATEMENT OF HON. W. M. ABBITT, A REPRESENTATIVE IN CONGRESS FROM THE  
STATE OF VIRGINIA

Madam Chairman and Members of the Subcommittee, I appreciate the opportunity to make representations with reference to my bill, H. Res. 847, regarding the problem of East-West trade.

I am indeed pleased that your Subcommittee has afforded this opportunity to air the basic issues in East-West trade and to study the impact of such trade on the United States and, in turn, on the conflict in Vietnam, which is, of course, of interest to all of us.

With so much of our national energy today being expended on the conflict in Vietnam, it naturally follows that our people are raising pertinent questions with reference to nations supplying aid to North Vietnam. As an individual and as a Member of Congress, I find it extremely difficult to explain how we can in good conscience look the other way when some of our so-called friends in the international community continue to trade with North Vietnam when that nation is today disrupting the peace of the world. It is incredible that some Free World goods continue to reach North Vietnam under auspices which are highly questionable and that our Government persists in its position that nothing can be done about it. By the same token, we need to study the whole question of trade with the Communist bloc inasmuch as it appears that less and less attention is being given to the dangers of supplying items which are the result of our advanced technology.

For years we have been told that the Free World and the Communist bloc are engaged in a cold war struggle, that the purpose of the Communist nations is to eventually overcome and destroy those who disagree with them and that the real danger to world peace lies in Moscow and Peking. Yet we have seen in recent years a constant veering away from this philosophy to the point where it now seems to make little difference as to who trades with the Communist bloc and what goods are supplied. This is more than a matter of dollars and cents or free trade; it is a matter of self-perpetuation. The question of trade with the Communist nations is, of course, a big one and one that must be subject to many variables. However, the question of trading with North Vietnam is, it seems to me, a much more precise issue. North Vietnam is engaged in a war. More than 15,000 American boys have died on the battlefield, and thousands of South Vietnamese have been killed in a conflict which has been going on for years. Although there are other smaller disturbances of the peace in various parts of the world, this is a clear-cut battleground. The issue is clearly drawn, and yet this

Nation continues to hide its eyes to the fact that massive trade is going on between North Vietnam and nations in the Free World. In addition, large scale trading is carried on with Communist China, which, in turn, supplies North Vietnam.

Of course, we cannot control the trade of other nations and would not attempt to do so. However, it is not incumbent upon this Country to look the other way at trade which obviously exists and, at the same time, to supplement and augment the economy of the nations which are doing the trading.

In my opinion, a full scale study needs to be made of the whole problem of East-West trade, where we are heading, and what will be the eventual results of a continuation of the present policy. We should not be traversing blind alleys, and if we are, now is the time to take stock of the situation and then follow with remedial action.

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STATEMENT BY HON. WALTER S. BARING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEVADA

Madam Chairman, I thank you for the opportunity to speak on East-West trade.

How can we conscientiously think of engaging in a trade with Communist countries who are making an all-out effort to kill our servicemen in Vietnam and Korea.

On one hand we tell the American people that a major portion of their hard-earned tax dollar is being spent to stop Communist aggression . . . that their sons and husbands are gallantly giving their lives to stop Communist aggression.

On the other hand, we tell the American people that the East-West trade proposal is a good one . . . it will help ease the cold war . . . smooth relations between our country and Russia and its satellites.

I ask you . . . does the Administration, yes, even Congress, think the American people are a bunch of dummies? That they can't read?

Last September the nation's newspapers and television and radio airwaves carried the news that Russia had increased its military aid to the Hanoi government. And what kind of an answer did the Administration give the American people to this bit of news? They said it was "regrettable."

At this very moment, American men are being killed and wounded in Vietnam by Soviet bullets and explosives fired from weapons delivered to Vietnam by Soviet ships.

Yet the only answer the Administration could give last September to the news that Russia was increasing its military aid to North Vietnam was "regrettable."

A number of our economists and business leaders say that trade with Communist countries is an economic problem. They believe we must consider the need of U.S. business to compete in a world market. I am all for U.S. business competing in a world market. But not with countries that have but one goal in mind . . . our downfall. And, most of all, not at the expense of our young American men.

Any trade with Communist countries is not an economic problem. It is our foreign policy problem. We have spent well over a half-trillion dollars in our struggle against Communist takeover.

Yet we have the Administration asking us to grant extensive trade privileges with Communist countries that are supplying 90 percent of military and economic aid to North Vietnam.

A tremendous barrage of propaganda has been unleashed in behalf of East-West trade, much of it from sales-minded businessmen prodded and guided by State and Commerce Department officials. The theory of this propaganda barrage is that U.S. businessmen would sell large amounts of goods, as would other free-world countries, thus making capitalists out of the Communists.

But an article in the *U.S. News and World Report* of March 27, 1967, shoots this theory down. Quoting European businessmen and government experts who are actually doing business with the Communists, the article states in part:

"Trade between Eastern Europe and the West will indeed continue to grow—perhaps by as much as 10 percent a year. But today Russia and its European satellites buy only 4 billion dollars' worth of goods a year from the entire non-Communist world. . . .

"The main trouble is that Russia and its friends have very little to sell to the West. Eastern Europe has little chance of earning the foreign exchange it needs to pay for imports.

"But European traders emphasize that Red lands buy only what their national plans call for..."

It's that last sentence that is most damaging to any proposed East-West trade. That Communist countries buy only what their national plans call for... and right now it is to aid Hanoi and help bring about financial disaster to the United States, thus setting up and easy conquest of our country without even going to war.

Mrs. Kelly, you say the objective of your undertaking is to determine what changes have taken place during the past year in the structure of East-West trade and how these changes affect U.S. foreign policy objectives in Europe, Vietnam and other areas. My answer to that is, there has been no change in the Communist plan other than to continue to work "deals" with our country for items that they can use against the United States.

The soundness of our dollar and balance of payments does not hinge on any future trades with the Communist bloc. The soundness of our dollar and balance of payments can best be attained by the ending of our give-away foreign aid programs and demanding that those countries owing us money start paying off their debt.

As Senator Everett Dirksen of Illinois so ably put it, "Is trade so sweet and profits so desirable as to be purchased at the price we now pay in death and agony?"

Thank you.

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STATEMENT OF HON. WILLIAM G. BRAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Madam Chairman and Members of the Subcommittee, I am grateful for the opportunity to express my views on the crucial and unresolved question of East-West trade.

The facts of the matter, as I see them, are few but to the point:

Expansion of trade with the Communist bloc—the "East" in "East-West," as "West" refers to the United States—is a major part of the Administration's foreign policy:

This same Communist bloc is giving strong support, both moral and material, to the North Vietnamese, enabling them to carry on their aggression against South Vietnam and increase the U.S. casualty count, which is now over one hundred thousand killed, wounded and missing;

This same Communist bloc has never made any secret of its ultimate aims, as far as trade with the United States is concerned. One Soviet authority on foreign trade has stated that "... due to the basic antagonism between communism and capitalism, trade between the East and West will always be influenced, if not dominated, by political considerations and motivations. The U.S.S.R.'s foreign trade policy is an integral part of its foreign policy..."

Another Soviet authority has said that "Socialist states consider it desirable to develop and improve economic relations with capitalist states as long as these still do exist." (emphasis supplied)

(Both of these quotations are found in Washington Report of the American Security Council, WR-67-11, dated March 13, 1967.)

The entire question is becoming more and more controversial; at times it has seemed rational discussion is impossible. U.S. Ambassador W. Averell Harriman stated on NBC-TV, on November 23, 1966, that opponents of expanded trade are "bigoted, pigheaded people, who don't know what's going on in the world that have prevented us from helping our balance of payments. . . ."

Estimates of what the Communist bloc supplies North Vietnam range from eighty to ninety per cent of what North Vietnam needs to carry on the war. I cannot help but wonder if Ambassador Harriman would apply his statement to the pilot of an Air Force or Navy plane, whose craft has just been hit over North Vietnam, thanks to radar and anti-aircraft equipment supplied by Russia or Poland?

Whether this is an age of "total war" or not—meaning, in effect, that no country, no individual, no commodity can possibly be neutral—is not a question to be settled here. But our country cannot afford the indecision and confusion that presently accompanies this part of our foreign policy.

I receive a considerable amount of mail on this matter and all of it is opposed to any increased trade; most of it calls for using trade as a weapon in the Cold War. A poll I took of my Sixth Indiana District constituents this year showed

eighty-three percent flatly and firmly against any expanded East-West trade. A typical comment was this: "We cannot fight the Communists in Vietnam and trade with them elsewhere. It just doesn't make sense."

It doesn't make sense to me, either.

STATEMENT OF HON. JOHN H. BUCHANAN, JR., A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF ALABAMA

Madam Chairman and members of the Committee, it is at the present time impossible to consider the subject of East-West trade objectively and with a long-range view, as the current conflict raging in Vietnam is a major factor dominating the whole pattern of U.S. foreign relations, and requiring the evaluation of our international trade policy in light of the effect it will have upon any prolongation of the North Vietnamese and Viet Cong aggression.

To give serious consideration at this time to any major expansion of East-West trade would of necessity involve consideration of increasing the production potential of the Soviet Union and the Soviet Satellites for the supplies and weapons which are flowing into North Vietnam. It is also doubtful that any agreement for expansion of East-West trade could be foreseen which would result in a dollar balance favorable to the United States.

The Communist countries are at present pursuing a determined effort to build up their reserves of hard currencies. Their own currencies are essentially a form of domestic script, which is not acceptable in foreign trade. For that reason, it is to their interest to export to the West, and there are, therefore, no realistic expectations that our exports could be expanded in that direction, in excess of imports, as a means of improving our balance in international payments.

The flow of trade, viewed from the side of the West, in the period 1962-66 has been as follows (in millions of U.S. dollars):

Year	Exports from the West	Imports into the West	Balance (+ or -)
1962.....	2,440	2,533	-93
1963.....	2,622	2,857	-235
1964.....	3,210	3,048	+162
1965.....	3,195	3,588	-393
1966.....	3,853	4,048	-195
Total.....	(1)	(1)	-754

<sup>1</sup> Unfavorable balance for above 5 years.

The commodity structure of East-West trade has remained unchanged in recent years. On the side of the East, the main interest in regard to imports remains concentrated on the category of "machinery and equipment", which is the category that is generally accepted as being a strategic factor in the development of industrial power. By 1966, the West supplied the East with more than one billion dollars worth of machinery and equipment, most of it embodying the most advanced technology in the field.

As a member of the Special Study Mission of the Committee on Foreign Affairs which visited the Soviet Union last year, I participated with the other members of the mission in discussing trade expansion at length with officials of the Soviet Ministry of Foreign Trade. Soviet authorities professed interest in the purchase of certain types of American industrial technology, but also stressed long-term credits, and working out various licensing arrangements. The consensus of opinion as a result of our discussions was that any acceleration of United States-Soviet trade is most unlikely at the present time, from both the Soviet and the U.S. viewpoints.

From our contacts with Soviet officials regarding Vietnam, it was concluded it would seem unwise for the United States to expect the Soviet Union to play a decisive part in bringing the Vietnam conflict to an end, and that Soviet aid to Hanoi can be expected to continue, even to increase.

In our consideration of trade expansion, we were aware that the United States does currently import platinum, palladium, chrome, manganese, and several other minerals used in our industrial and space endeavors from the Soviet Union, and that in the case of some of these minerals it might be difficult

to find alternative sources of supply. However, there does not appear to be any urgent need to expand these imports, nor was our attention drawn to other critical materials that could be obtained by the United States from the Soviet Union by increasing the volume of trade between our two countries.

In any current consideration of East-West trade, the cold hard fact stands out towering above all other considerations—North Vietnam and the Viet Cong could not continue the aggression, could not mount new offensives such as we have seen in the last few weeks, such as are continuing now, if supplies were not pouring into North Vietnam from the Soviet Union and the Soviet Satellites.

The following figures point up the sharp rise in trade of the Communist countries with North Vietnam from 1964 to 1966 alone:

#### TRADE OF THE COMMUNIST COUNTRIES WITH NORTH VIETNAM

[In millions of dollars]

	Exports to North Vietnam			Imports from North Vietnam		
	1964	1965	1966	1964	1965	1966
U.S.S.R.....	47.7	74.9	68.2	34.8	30.6	25.3
Satellites.....	14.9	29.7	59.5	22.4	24.2	16.0
Bulgaria.....	1.3	2.4	(1)	2.4	(1)	(1)
Czechoslovakia.....	4.5	9.7	13.8	5.0	7.2	5.6
East Germany.....	2.9	4.9	16.5	2.7	6.7	5.0
Hungary.....	2.7	5.3	9.7	4.9	3.7	1.5
Poland.....	2.1	4.0	10.5	5.2	5.1	3.7
Rumania.....	1.4	3.4	9.0	2.2	2.1	0.2
Total, Eastern Europe.....	62.6	104.6	127.7	57.2	54.8	41.3
China.....	(1)	(1)	(1)	(1)	(1)	(1)

<sup>1</sup> Not available.

Source: Unpublished data of the Department of Commerce.

These figures gain significance when it is noted that in 1964 Exports and Imports remained close to dollar balance, but with the acceleration of the Vietnam aggression in 65 and 66, exports reached an approximate 3 to 1 ratio.

As an example of Soviet military supplies to North Vietnam, in a letter released in March of 1966 by Soviet leaders, the following items were listed:

1. In 1965 alone the U.S.S.R. placed at the disposal of North Vietnam weapons and other war materials of a total value of 500 million rubles (\$550 million).

2. The weapons in question included: surface-to-air missiles, antiaircraft artillery, air planes, tanks, coastal guns, warships, and other items.

3. The Soviet Government also provided Hanoi with courses of training for pilots, missile technicians, tank drivers, artillerymen, etc.

In addition reports have been received of many other items exported by Soviet Russia and the Soviet Satellites to aid in the North Vietnamese war effort. These include petroleum products, industrial machinery, power-generating equipment and road-building machines. And the list could go on.

If the United States is determined to win the war in Vietnam, and bring the communists to the peace table to negotiate, we must make every effort to close the avenues of supply which are reaching the enemy, and expansion of East-West trade at this time would not further that objective.

We are all aware of the dangerous threat of communism in the world. We see the Soviet Union move with planned deliberation in every area where it is possible to stir up and foment trouble that will drain the resources of the Western nations of the free world, and of the United States in particular. We must meet the Soviet threat at every point—both military and economic—and counter the Soviet moves at every opportunity.

So long as the United States is confronted with Soviet indulgence in aggression by proxy through the Soviet role in extending financial aid and material supplies—military and non-military—to our enemy, there can be no logical consideration of East-West trade expansion.

STATEMENT OF HON. JEFFERY COHELAN, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF CALIFORNIA

Madam Chairman, I commend your committee for giving its attention to the important problem of East-West relations, and I thank you for this opportunity to present to you some of my own views on this important problem.

In April 1967 I was asked to address the American Assembly, held at Arden House, Harriman, New York, on this subject. About 60 men and women, representative of broadly diverse interests and experience, were delegates to this Assembly. The results of their deliberations were published as the Report of the Thirty-first American Assembly, "The United States and Eastern Europe."

With your permission, Madam Chairman, I would like to present to the Committee a copy of my remarks and of the Assembly report.<sup>1</sup> I hope you will find them helpful.

Mrs. KELLY. Without objection, we will place your address in the record at this point, and include the report of the American Assembly in the appendix to the hearing.

There was no objection.

BUILDING BRIDGES BETWEEN THE UNITED STATES AND THE COUNTRIES OF EASTERN  
EUROPE

REMARKS OF CONGRESSMAN JEFFERY COHELAN AT THE ARDEN HOUSE CONFERENCE ON  
UNITED STATES-EASTERN EUROPEAN RELATIONS, APRIL 27, 1967

The central and compelling reality in the United States' relations with Eastern Europe today is that we have moved from a period of hostile confrontation to one of peaceful competition. The Communist world is no longer totally immune to economic and political winds of changes. The rebirth of nationalism and expansion of contacts with the Western world have set loose forces in Communist countries that have radically changed the nature of the Communist world from what it was in the aftermath of World War II.

When Joseph Stalin rang down the iron curtain in the late 1940's, the Communist world under the USSR was a hostile, aggressive empire. Our allies joined with us in those days in denying virtually all industrial equipment and material to the Communist world. They still cooperate with us today in embargoing trade in strategic goods that could strengthen the military potential of the Communist nations.

But many of them have relaxed restrictions on other exports to the countries of Eastern Europe. At the same time, the United States, though permitting some trade with these same countries, still has many vestiges of our earlier cold war arsenal of trading weapons.

The question which arises today, then, is whether the controls and restrictions we maintain in isolation from our allies continue to serve our national interest. The question is whether the changes that have occurred in Eastern Europe warrant changes in our own policies and practices.

In my judgment, they do. In my judgment, it would be in our best national interest to modify our policy in order to reinforce and extend the process of change. This attitude, though, is not shared by a sizeable, and a vocal, section of the Congress . . . .

Let me step back for just a minute to put our present choice in a fuller perspective.

In the late 1940's and early 1950's, the Communist world presented an image of a giant, powerful, totalitarian bloc of countries subscribing to a single centralized brand of communism and aggressively threatening the rest of the world. While we have traditionally regarded trade as a normal element of relations between countries, we did impose security controls in 1948 as a response to Soviet expansion in Eastern and Central Europe. With our allies we organized a series of defensive alliances to contain this aggressive force, and we repulsed it in Greece, in Berlin, and in Korea.

Today there is no longer a single Communist monolith. The Communist world is split down the middle. On one side is Communist China, fanatical in its hostility to the United States and wedded to the doctrine of inevitable conflict between

<sup>1</sup> The Report of the Assembly appears in the Appendix to the hearing.

the Communist and Capitalist worlds. On the other side is the Soviet Union, accused of revisionism because it faced up to the awesome consequences of direct military confrontation in an age of nuclear weapons and mass destruction. It is, apparently, moving slowly and cautiously toward increased peaceful relations with the West.

The split between the Soviet Union and Communist China, combined with the gradual loosening of direct Soviet domination after Stalin's death, have had important consequences for the countries of Eastern Europe. The Soviet leaders after Stalin, although obviously authoritarian, have for the last ten years tried to make more use of persuasion and economic incentive in their relations with other Communist countries. The small nations of Eastern Europe, which in Stalin's day were mere satellites of the Soviet Union, are today increasingly able to adopt internal and external policies appropriate to their own national interests as they see them. Among other things, they have expanded trade and cultural relations with Western Europe, with Japan and with other industrialized countries.

Yugoslavia's resistance to Soviet domination, even before Stalin's death, was the first major crack in the Communist monolith. And it is important to note that \$695 million in military aid and approximately \$1.8 billion in economic assistance\* from the United States since 1948 have been important factors in enabling Yugoslavia to maintain a measure of independence from Russia.

Poland was the first Warsaw Pact country to reduce Soviet domination over its internal affairs. Romania has been pursuing independent initiatives in the area of foreign policy and has resisted what is regarded as Soviet efforts to curtail its industrial development.

The ferment of change and economic reform are also at work in other Eastern European countries. Rapid industrialization has put several of them in a better position to expand relations with the West. They are still Communists, of course, but they are neither ruled from Moscow nor are they excommunicated when they follow independent lines.

The Stalinist, messianic view of Communist expansion has gradually given way to economic and national demands. Pride in having the largest space vehicles or tallest smokestacks is no longer enough to satisfy the aspirations of many Eastern Europeans.

While generally, but not inevitably, siding with the Soviet Union on international issues, these East Europeans now are able to take advantage of the present situation to assert increased autonomy for themselves in their domestic policies. Although the future pattern of these developments is not wholly clear, it seems probable that individual national aspirations and motivations will receive greater emphasis at the expense of rigid doctrinal formulas. There are increasing indications that Eastern European countries do not automatically toe the Soviet line. Moreover, this line can no longer be put out for instant compliance.

In brief, developments within these nations, and between them and the Soviet Union, have created conditions, a climate, in which expanded trade, cultural exchanges and diplomatic initiatives are possible. Splendid opportunities for peaceful engagement are at hand . . .

The Western European countries have been quicker to grasp these opportunities, to understand the winds of change, than has the United States. As the military and political confrontation between East and West eased, these countries moved steadily to ease the restrictions on trade with the East. The result was not only increased trade between the Eastern and Western European countries, but a growing disparity between the United States and its major industrial allies in regard to attitudes toward trade, controls on trade and participation in trade.

For example, American exports to Eastern Europe, excluding the U.S.S.R., in 1964 were \$193 million. The comparable figure for Western Europe was \$1.9 billion, nearly ten times as great. The same picture is seen with imports—\$78 million to the United States compared with \$1.8 billion to Western Europe.

As John Campbell pointed out in a background paper written for this conference, Western Europe's trade with the States of Eastern Europe remains well above that which it conducts with the Soviet Union. Furthermore, this Eastern-Western European trade is growing as a result of closer mutual interests.

At the same time, well over one-half of the trade of each of the Eastern European countries, with the exception of Albania, remains within the bloc. It is

\*Includes \$1,153 million through Food-for-Peace program.

also well to note the further limit, or potential, that while 20 percent of Eastern Europe's trade is with Western Europe, the latter conducts less than 3 percent of its total with the East. . . .

In some areas the United States has moved commendably to modify its policies, to take advantage of the changes going on in Eastern Europe. We provided military and economic assistance to Yugoslavia after that country's 1948 break with Moscow. We extended credits and sold surplus farm commodities totaling \$51.8 million to Poland following her "revolution" of October 1956. We restored most-favored-nation treatment to U.S. imports from Poland in 1960. We upgraded the rank of our diplomatic missions to Romania and Hungary in 1966, and we reduced restrictions on some 400 non-strategic items exported to Eastern Europe.

But our approach has been marred by certain basic contradictions, such as first extending, then withdrawing and then extending again, most-favored-nation status to Yugoslavia and Poland. Perhaps most important among these contradictions, though, is the split between the Executive and a sizable block within the Congress as to what our policy should be.

On the one hand, the Executive branch of our government has attempted, in at least a modest way, to encourage peaceful evolution in Eastern Europe, to increase its westward orientation, and thus to reduce the military threat to Western Europe. The goal of these policies is the gradual reconciliation of Europe, the relaxation of cold war tensions and the reduction of Soviet military presence in the eastern part of the continent.

On the other hand, the President's authority to continue on this course has been sharply challenged and restricted by various Congressional actions—by provisions of the Battle Act, of the Export Control Act, of the Foreign Assistance Act and by riders to appropriations bills and to such measures as the Food-for-Peace program. The bitter debate in the House of Representatives late last year over this latter program is a good cause in point.

The issue here, as drawn most sharply by Congressman Page Belcher's recommittal motion, was whether countries which traded with Cuba or North Vietnam, even in non-Battle Act or non-strategic goods, could participate in the Food-for-Peace program. The immediate targets were India, which had a minor, though greatly reduced, trade in jute with Cuba, and Yugoslavia, which had sent medical supplies to North Vietnam.

Already written into law was a provision flatly prohibiting the sale of agricultural commodities to countries that sell, furnish or permit their ships and aircraft to carry arms or strategic items to or from North Vietnam and Cuba.

Proponents of excluding Yugoslavia and India—such as Congressman Findley, a Republican from Illinois, Congressman Abbitt, a Democrat from Virginia, and Congressman Dole, a Republican from Kansas—argued that it was time to stop coddling our enemies and playing "footsie" with those that aid and abet them.

Opponents—including myself, Congressman Bingham, a Democrat from New York, Congressman Frelinghuysen, a Republican from New Jersey, and Congressman Fraser, a Democrat from Minnesota—noted that restrictive safeguards already existed and that this amendment would even preclude the United States, which had shipped drugs to Castro's Cuba.

Despite the fact that at least seven of our NATO allies had engaged in more substantial trade with North Vietnam in 1966 than had Yugoslavia, the latter was excluded from participation in the Food-for-Peace program, as it was finally amended by Congress. The key vote, on Mr. Belcher's recommittal motion, of 306 to 61, with 66 absent, defies labeling it as a Republican vs. Democrat, or Conservative vs. Liberal clash. The 306 majority, however, was made up mainly of Republicans and Southern Democrats, while the 61 in the minority were almost solely Democrats from the Northern, Eastern and Western States. . . .

If one attaches importance to the ties that have existed between the United States and Yugoslavia since 1948, if one gives weight to the fact that Yugoslavia depended on the United States as a source of such commodities, and if one values the expanding opportunities for increased trade and cultural relations with the other countries of Eastern Europe, then the Congressional action was short-sighted and its timing most unfortunate.

The important point I want to make and stress, though, is that this action, quite contrary to the flexible policy requested by the Administration, reflected substantially held attitudes and opinions within the House of Representatives.

Pending before the Congress again this year is the President's request to extend non-discriminatory tariff treatment to the countries of Eastern Europe in return for equivalent benefits to us.

At the present time, imports from Eastern European countries—other than Yugoslavia and Poland—are subject to the prohibitively high tariffs that were in force in 1930. Removal of this discriminatory feature in our trade relations with Eastern Europe would enable these countries to earn dollars to buy American goods. It would facilitate the two-way flow of trade that is characteristic of more normal international relations and would also be a significant political gesture.

The reciprocal benefits we would seek through bilateral commercial agreements would, of course, vary from country to country. In addition to direct trade benefits, they might include provisions for the settlement of commercial disputes; the facilitation of travel by American businessmen; the protection of United States copyrights, technology, and other industrial property rights; and assurances to prevent trade practices injurious to United States labor and industry. At the same time, the ability to expand trade relations would facilitate our efforts to obtain settlement of financial claims and more satisfactory arrangements in cultural and information programs.

The Congressional battle lines are again clearly drawn, as they are also on the Fiat agreement with the Soviet Union.

Congressional critics argue that peaceful relations with Eastern Europe add strength to the Communist governments of that area. They argue that selling them goods and services of any kind will help them solve their internal problems; that it will make it easier for them to use their limited resources to build up their military power; and that, in the final analysis, there is no possibility of any lasting settlement or peace in Europe as long as the Communist regimes remain. With great passion they ask, why should we increase trade and cultural contacts with the Communists when they are aiding our opponents in Vietnam? Let me note that in political terms this is a sticky question.

Congressional supporters, on the other hand, point out that trade provides us with an instrument to encourage the movement toward greater national independence in Eastern Europe. By refusing to trade we put ourselves in a posture of hostility that could be at odds with these developments. Our refusal to trade cannot importantly limit Soviet or satellite military power, but our willingness to trade would be concrete evidence of our belief in constructive and peaceful relations.

I do not think we should allow ourselves to be deluded into thinking that calm and rational debate will result on this subject. The currents of old hostilities run deep and strong. They are compounded by the conflict in Vietnam, which infects everything it touches.

As Senate Majority Leader Mike Mansfield stated so correctly earlier this year:

"It will test our wisdom to be able to act with reason and equanimity in spite of the fact that the world is moving on, largely indifferent to the conflict in Vietnam, and, in some instances, even hostile to it."

And the Senator continued with this most important observation:

"The failure of our efforts for peace in Southeast Asia does not give us leave to turn off our intelligence and to turn back on the possibility of advancing peace elsewhere. Indeed, the more the arrows in Vietnam, the more the urgency of the olive branch whenever it can be extended. The antidote to the spread of war remains the spread of peace."

The amount of any expanded trade we might engage in with Eastern Europe would not be large. It would certainly not cause either the demise or the survival of any Communist government operating there. Neither will our restrictions deny them the commodities and technology they need.

United States trade with the countries of Eastern Europe presently amounts to about one percent of our total trade. Removing the existing barriers would, of course, serve to increase it for there is every indication that the Eastern Europeans are interested in purchasing more from the United States—principally machinery, equipment, complete plants and technical data.

But a basic limitation is that the market in the United States for Eastern European exports is small. The foodstuffs, fabrics, timber, coal, machinery and metal products they have to offer are in small demand here. In turn, Eastern Europe does not have the foreign exchange, the capacity to develop it nor the effective demand for American products, to become a major market for our exports.

The amount of trade, though, is relatively unimportant. What is important is the politics of offering trade or withholding it.

Our present policy of trade restraint denies to American farmers and manufacturers the opportunity to compete for markets in Eastern Europe. It restricts our presence and isolates our contacts.

Senator Clark, of Pennsylvania, noted after his trip to Europe last year that: "It is illogical to talk about normalizing relations with the Soviet Union and the Eastern European countries while one aspect of our relations, and it is a crucial one, remains frozen. Trade is, after all, an important medium of communication between countries. It brings in its wake an exchange not only of information but of people as well. It forces countries to inject an element of reason into their economies."

Trade, after all, is a *tactical tool* to be used with other policy instruments for pursuing other national objectives. It cannot, by itself, settle the major outstanding issues between ourselves and the Communist countries of Eastern Europe. But, over time, expanded trade relations can help us to influence attitudes and directions in ways that could contribute to our national interests.

As the President's Special Committee on U.S. Trade Relations pointed out in April of 1965,

"Properly conceived and wisely administered, a growing trade with East European nations and the Soviet Union could become a significant and useful device in the pursuit of our national security and welfare and of world peace."

The important point, and the one on which I part company with what may even be a majority of my colleagues in the House of Representatives, is that we must not be trapped and frozen by dogma. We cannot afford, for our own welfare and security, to look at the Communist world as an undifferentiated or monolithic unit.

We must keep our powder dry and deny to the Communist world any trade or exchange that would strengthen its military capabilities. But at the same time we must take cognizance of the changes that have gone on and are going on today in Eastern Europe. We must learn to recognize the differences, as well as the similarities, between these countries. And we must be prepared to use all of the tools at our command—trade, cultural exchange and diplomatic initiatives—to effect the economic, social, military and political changes that will be in our own national interest.

This is the challenge that the changes in Eastern Europe presents to us today. I hope we will move aggressively to accept that challenge and further that change. . . .

I would like to turn for just a minute, in closing, to the immense and baffling problem of German reunification. Ever since my first inspection trip to Germany in 1959, as a member of the House Armed Services Committee, I have felt a particularly deep and personal concern for the fate and future of this divided nation.

One of the many tragedies of the war in Vietnam is that it has diverted attention from this fundamental obstacle dividing East and West, from this divisive factor preventing normal relations in much of Central Europe. The absence of crisis there today in no way diminishes our pressing need to find a solution. Another Berlin crisis could be ignited tomorrow, or next week, if Moscow planners should decide it was in their strategic interest, and this spark could set off the holocaust that would destroy civilization as we know it.

It is my personal belief that the present partition can be ended only if the American-Soviet *confrontation* in Europe can be transformed into *cooperation*. The often-heard generalities, such as "we must work for the unification of Germany," have not and will not bring us much closer to that goal.

The practical step which can be taken now is to use trade as a political lever—to extend economic cooperation and cultural exchange wherever and whenever it can be used to increase independence within the bloc and to create closer ties with the West.

If normal relations can be re-established with Eastern Europe, then the existence of East Germany, as Josef Korbel has suggested in his review of Zbigniew Brzezinski's book, "Alternative to Partition," becomes an "anachronism" and perhaps even an embarrassment to Moscow.

More than trade, of course, will be needed to achieve this end. Territorial claims, and particularly the Oder-Neisse boundary, must be settled. In the process West Germany's close ties with the West must not be jeopardized.

But a start can be made. The opportunities for trade and exchange and healthy relations can be pushed at every level. It is none too early to make such a new effort. . . .

We stand today at something of a crossroads in our approach to the Communist world. We can, if we choose, ignore the encouraging developments of the last several years. We can act as though they didn't exist. We can carry on our differences against individual Communist powers as if they were still part of the grim monolith of Stalin's day.

But if we do, we disregard perhaps one of the brightest chances we have yet seen to pull back from the brink of nuclear war. We ignore the practical possibilities of a settlement of the German problem. We neglect a real possibility to build a more stable Europe that can contribute to a more stable world.

These possibilities, in my judgment, are simply too great to pass by.

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STATEMENT BY HON. HAROLD R. COLLIER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Madam Chairman, I appreciate this opportunity to present my views on the subject of East-West trade.

Because of my interest in this subject, I have introduced House Resolution 848, which provides for creating a Select Committee to study the impact of East West trade and assistance to nations which support aggression, directly or indirectly. Pending the establishment of such a committee, I welcome the current hearings by the Committee on Foreign Affairs.

We who are members of Congress frequently are asked, "Why does a first-rate power such as the United States find it so difficult to defeat a fifth-rate power such as North Vietnam?" In reality, the proposition is not that simple.

We are fighting much more than a fifth-rate power, as North Vietnam is getting substantial help from both Communist China and Communist Russia. Although Red China may have its hands full with domestic troubles, the Soviet Union and its satellites are providing most of the weapons, ammunition, planes, ships, trucks, missiles, antiaircraft batteries, radar defense systems, computers, gasoline, oil, and other items that are being used against America's fighting men.

Besides supplying our enemies with the most modern weapons, the Soviet Union provides technicians who teach them how to use them. Its skilled personnel trains fighter pilots and missile crews. Communist Russia will spend a billion dollars this year to aid our adversaries. Its colonies in Eastern Europe will contribute their share, too.

According to the Moscow newspaper, *Izvestiya*, tens of thousands of tons of technical equipment and food are shipped to North Vietnam each month from Soviet ports on the Black Sea and in the Far East. Among the items carried by Russian vessels, which operate on regular schedules, are automobiles, tractors, oil, mineral fertilizers, rolled ferrous metal, cables, paper, medical equipment, canned goods, and flour. Portable power plants that have been shipped from Russia to North Vietnam can be used to replace major generating stations that have been put out of commission by American bombs.

On November 15, 1966, Leonid I. Brezhnev, General Secretary of the Communist Party Politburo, while speaking over the domestic radio in the capital of Bulgaria, said, "The all-around aid rendered by the Soviet Union and other socialist countries to fighting Vietnam is of concrete effective nature, and let everyone know that it will continue. . . . The Bulgarian People's Republic, just as other socialist states, is rendering the people of Vietnam fraternal aid in their struggle against the imperialist aggressor."

Shortly thereafter, on December 1, 1966, Andrey P. Kirilenko, a member of the Politburo, spoke over the Moscow radio, making it clear that "The Soviet Union . . . will continue to render ever-growing, all-around assistance to the people of Vietnam in their courageous struggle against U. S. aggression."

On the same day, Todor Zhivkov, Bulgaria's Premier and First Secretary of its Communist Party, declared over the Sofia radio that "The Bulgarian government . . . will continue to extend moral-political support and material aid to the Vietnamese people to bolster their economic and defense capability."

Only the day before, Hungarian Premier Gyulla Kallai said, over Budapest's domestic radio, "The American administration knows very well . . . that it will be unable to normalize relations with the European socialist countries as it is conducting aggression against a socialist country in Southeast Asia."

Two days following the remarks of Kirilenko and Zhivkov, Janos Kadar, leader of Hungary's Communist Party, speaking over the Budapest domestic radio, said, "We are fighting against U.S. aggression in Vietnam and will go

on helping our Vietnamese brothers until their cause is crowned by ultimate victory."

Czechoslovakia joined the chorus on the day after Kadar's speech. The Prague radio stated that "The entire socialist world has joined forces to provide North Vietnam with all conceivable assistance—economic, financial, and technical, as well as political, including the Soviet offer to allow volunteers from Czechoslovakia, the Soviet Union, and other socialist countries to go to Vietnam."

Several dozen American planes have been brought down over North Vietnam by Czech radar and antiaircraft guns. North Vietnam has obtained machine tools, road-building equipment, rails, coal, and fertilizers from Russia, electronic products from East Germany, trucks and other vehicles and oil from Romania, electric trucks, steam boilers, cables, insulators, and hydraulic pumps from Bulgaria, and medical supplies from Yugoslavia.

In spite of all the evidence that the Soviet Empire and its colonies are providing North Vietnam with the materials of war that are being used to kill American men, President Johnson told Congress in last year's State of the Union address, "We are determined that the Export-Import Bank can allow commercial credits to Poland, Hungary, Bulgaria, and Czechoslovakia, as well as to Romania and Yugoslavia."

All of these nations are satellites of the Soviet Union. The chief executive also said, "I ask and urge the Congress to help our foreign and commercial trade policies by passing an East-West trade bill."

Both as a member of the House of Representatives and as a member of its Committee on Ways and Means, I will speak and work and vote against any legislation that would encourage trade with the nations that are furnishing the weapons and the ammunition to kill our men in Vietnam. I do not believe that very many of the American people want to increase commerce with our Communist enemies.

Several years ago, Nikita Khrushchev, then the Soviet dictator, told America, "We will bury you!" There was some difference of opinion as to whether he meant that the Soviet Empire would destroy America by vanquishing us in a war or whether the Communists would prove their superiority by out-producing the advocates and practitioners of free enterprise.

No matter what he meant, I am not in favor of shipping strategic materials to nations that are fighting a war against us, directly or by proxy. As far as I am concerned, anything that the enemy or its allies wants to obtain from us is a strategic material. Food feeds enemy soldiers. So-called nonstrategic goods that the enemy receives from us or from our so-called allies enable him to turn his attention from production of such nonstrategic items to the manufacture of war materiel.

Winning our war against Communist North Vietnam is more important than all the profits that a few shortsighted traders might receive from trading with the enemy.

According to Robert E. Klieberg of the Committee for Economic Development, we would receive little benefit from trade with Communist nations and would expose the Western world to some or all of the following hazards: An increase in Communist propaganda and subversion in Latin America under the guise of trade; an opening of the trade barriers which we have attempted to impose around Cuba; a further detriment to our balance of payments position as a result of the credits which we would have to extend to Communist countries; an increase in the flow of our technical information and know-how to the Communist world.

Let us remember what Khrushchev said, "We value trade least for economic reasons and most for political reasons."

The Johnson administration argues that if we don't trade with the Communists, they will take their business elsewhere. James Marine, news editor of radio station KPOL in Los Angeles, answered this argument very persuasively, "If the Communists could . . . get what they want elsewhere, they wouldn't be [wanting] so frantically to deal with us. The fact . . . is that they can't get the quality, speed of delivery, service, and replacement parts from anybody else; we make the best and sometimes the only kind of materials they need the most, and if they didn't get them from us, they couldn't get them any place. They would . . . have to make them themselves, if they could or wanted to."

Many of the items that the Department of Commerce has licensed for export to the Soviet Union can be used for defense as well as for non-defense. Among

other things, diethylene glycol is used for explosives and liquid rocket propellants; chemical wood pulp is used to make solid rocket fuels; diamond drill bits, which nobody else can supply, help produce more oil; scientific instruments measure radiation, aircraft flight performance, and the quality of sophisticated optics. The Department has also licensed exports of computers, computer components, and computer replacement parts (which the Russians admit they cannot duplicate), precision machine tools, jet airplane engines, rifle-cleaning compounds, and chemicals of all kinds.

According to the same Department of Commerce, our East-West trade in 1966 netted us only \$20 million, against a loss of over \$1¼ billion in our total balance of payments. Contrast this with the more than \$2 billion that we must spend each month to prosecute the war in Southeast Asia.

Besides enabling them to assist North Vietnam, our shipments to the Communists help them in their ballistic-missile and anti-ballistic-missile programs. The funds that we give or lend to the East are used to buy radar and navigation equipment from the West for installation aboard naval vessels that Poland builds for the Soviet Union. The Skoda Works in Czechoslovakia, which manufactures submachine and antiaircraft guns for the Viet Cong, is being gradually refitted with machine tools that were manufactured in America.

Besides helping North Vietnam, Soviet Russia is aiding Communist Cuba and Communist subversives throughout Africa and Latin America.

Madam Chairman, instead of continuing to assist the Soviet Union and its satellites, in order that they may in turn assist our enemies, let us strengthen the laws that are now on the statute books, pass whatever additional legislation is necessary, and insist that the executive branch enforce all such laws vigorously, relentlessly, and unceasingly.

Again I want to thank the Subcommittee on Europe for its kind invitation which enabled me to present my views on the important subject of East-West trade. With the permission of the distinguished occupant of the chair, I would like to include in the hearings record an article *U.S.-Communist Trade*, by Colonel Samuel F. Clabaugh, which appeared in the July-August, 1967, issue of the publication *Ordnance*. Colonel Clabaugh is a research associate specializing in economy strategy with the Center for Strategic Studies, Georgetown University, Washington, D.C. As an ordnance reserve officer on active duty during World War II, he was assistant U.S. military attaché in London and liaison officer between the U.S. Administration of Export Control and the British Ministry of Economic Warfare.

**U.S.-COMMUNIST TRADE—OUR GOVERNMENT ORIGINALLY REFUSED TO DO BUSINESS WITH THE REDS ON THE GROUNDS THAT IT WAS TRADING WITH THE ENEMY, BUT LATER THIS WAS TOLERATED AS EXPEDIENT, WHILE TODAY IT IS EMBRACED AS DESIRABLE**

(By Samuel F. Clabaugh)

The division of the world today is not geographic but geopolitical and geo-economic. When we speak of "the West" we frequently intend to include Japan, Australia, New Zealand, the Philippines, South Korea, Nationalist China, Thailand, Malaysia, and perhaps others.

"East-West" has thus become as much a misnomer for the significant flow of strategic trade as it has for the ideological conflict. In both trade and politics, the meaningful designations are—Communist and non-Communist.

Trading with the Communists successively has been rejected, endured, and embraced by the United States ever since the Bolsheviks—after consolidating the gains of their October Revolution of 1917—turned to the West for trade, credits, and recognition.

This they did while, at the same time, vilifying the "capitalists and imperialists"—vowing to overthrow their governments and set up Bolshevik rule in their stead.

The United States was the only government to reject the proposals outright. President Wilson's Secretary of State, Bainbridge Colby, in replying to an inquiry from the Italian Government, said:

"We cannot recognize, hold official relations with, or give friendly recognition to the agents of a government which is determined and bound to conspire against our institutions."

This was a policy soundly based on principle. President Harding followed with a demand for the payment of debts and claims. His Administration, and

those of Coolidge and Hoover which followed, tolerated the trade—but withheld the credit and recognition which the Bolsheviks so eagerly sought.

If the Wilson position was based on principle, positions held during the Harding, Coolidge, and Hoover Administrations was based on money. Then came Franklin Roosevelt who, as George Kennan wryly suggests in his "Russia and the West," was as little interested in the principle involved in resistance to Soviet theory on international affairs as he was in collecting the debts. Thus, he embraced the Soviets with recognition and trade.

But the United States withheld long-term credits until World War II when the Soviets got something even better—called Lend Lease.

After the war came another cycle, from President Truman's restriction of trade with the Communists during the Berlin crisis of 1948-1949 and the Korean war to the present Administration's embrace of that trade during the Vietnam war.

Controls were relaxed somewhat in the Eisenhower Administration, following the Korean war.

In 1963 President Kennedy, after prolonged public debate, approved the sale of wheat to the Soviet bloc, amounting in 1963 and 1964 to \$250 million. But he did so somewhat cautiously and specified a number of conditions. Most of these he finally was forced to waive.

Following the death of President Kennedy, President Johnson continued and intensified the advocacy of expanded trade with the Communist nations. "Building bridges of friendship," he called it.

Campaign speeches in the elections of 1966 were climaxed on October 7th when President Johnson appeared before the National Conference of Editorial Writers in New York. On that day the United States embraced the principle of trading with the Communists which for 20 years it had first rejected, then endured.

Most of the Administration's proposals represented concessions of significant benefit to the Communist nations.

The Soviet's scornful reaction to President Johnson's offer of increased trade and credit and other concessions should have caused no surprise. In August 1966 Premier Kosygin, in addressing the Supreme Soviet, had kind words for all the nations of the world except the United States. He denounced the "American aggressors" and said the United States was "in a position of increasing international isolation" and that "aggressive and militaristic forces set the tune in American policy."

All this was quite a prologue for the President's offer 2 months later. This was the détente, the "thaw," which some think justifies our expansion of trade and credit with the Communists, the new Consular Treaty, and all the other recent concessions.

On September 15, 1966, three weeks before the President's speech, Radio Moscow was boasting that: "The increasing number of planes shot down over North Vietnam points to more powerful and better organized anti-aircraft defenses . . . the Republic's stepped-up defense potential is largely the result of Soviet aid. . . . The Soviet Union has pledged to give North Vietnam all the aid it needs . . . in the face of escalated American aggression."

On October 15th, a week after the President's speech, the Associated Press reported from Moscow that Communist party leader Brezhnev had rejected the President's proposals.

Brezhnev said it was a "strange and stubborn illusion" that U.S. relations with the U.S.S.R. and the Soviet bloc countries "can develop unimpeded despite American aggression against Vietnam and American interference in the affairs of other countries."

It would seem "a strange and stubborn illusion" on the part of many today that relations can be said to have improved and tensions relaxed when the Soviet Union is supporting a deadly war against us in Vietnam, maintaining a base in Cuba, and aiding so-called "wars of liberation" around the world.

Bitter denunciation of the United States and the promise of an increasing part in the Vietnam war have been echoed throughout eastern Europe. Radio Prague said on December 4th:

"The entire Socialist world has joined forces to provide North Vietnam with all assistance—economic, financial and technical—as well as political, including the Soviet offer to allow volunteers from Socialist countries to go to Vietnam."

The first test of the use of economic strategy in the Cold War came in the Soviet blockade of Berlin in 1948-1949. The Soviets had harassed the Western

allies in the administration of the city from the beginning of the Occupation in June 1945.

Early in 1948 this took the form of transport restrictions in allied access to Berlin. These were gradually intensified until June 24th when the Soviets imposed a complete blockade.

The next day the airlift began. It was a magnificent achievement. It enabled West Berlin to survive. But it was working no hardship on the Soviets.

But when the allies imposed a counterblockade—that was language the Soviets could understand. They got the message. The cost was too great, and events moved swiftly.

On February 4, 1949, the West imposed a counterblockade. TASS reported on April 26th that the Soviets were willing to lift the blockade, which had begun with a series of harassments a year earlier, if the West would lift its blockade and arrange for a meeting of the foreign ministers.

On May 4, 1949, representatives of the Big Four meeting in New York agreed to lift the counterblockade and reconvene the Council of Foreign Ministers. On May 12th at 12:01 a.m. the blockade of West Berlin was lifted.

The allies had triumphed. It was the first and perhaps the greatest victory of the Cold War. It was not a triumph of conciliation and concession, but a triumph of firm countermeasures. When warned of the danger of war in imposing countermeasures, Gen. Lewis D. Clay had an answer that should be remembered today:

"When the Soviet Union wants to start a war, it won't be deterred by weakness."

The ramifications of any study of trade with the Communists seem limitless. Therefore, we can identify only the crucial issues in this controversy and suggest some of the corollary and collateral questions. These crucial issues seem to be:

1. What are peaceful or nonstrategic goods?
2. Is there a détente and who are the participants?
3. What of the role of our allies in East-West trade?
4. What is the relation of East-West trade to the war in Vietnam?

1. *What are peaceful goods?* Harold J. Berman, of the Harvard Business School, has wisely said that goods are neither peaceful nor warlike. Only the people who use them are. Goods are inherently neutral, and in our modern technology and economics, everything has both a military and civilian application.

If we were to choose one symbol of the advanced technology of the present age and the unforeseeable future it would doubtless be the computer. The computer is the helmsman of cybernetics, and cybernetics is now seen by some Soviet authorities as the means of facilitating the optimum (that is, Communist) control of the complex system of states, peoples, and resources of the world which the Communists hope will result from Communist world domination.

The fact is that we are selling our computers, admittedly the best in the world, to our adversaries to use against us. But computers, we are told, are peaceful goods; so are machine tools and chemical plants, and electronic devices; so are they all, all peaceful goods.

And so are they all, all honorable men who will not use them against us. *Will not use them against us? They are using them against us—now—in Vietnam.*

2. *Is there a détente?* I think we established in the beginning that all of the United States recent concessions to the Soviet Union have been unrequited; all of our offers rebuffed. Our concessions are a language they don't believe, respect, or understand.

Heretofore the Communists wanted a détente in order to get trade; the United States wanted trade in order to get a détente; and our allies wanted trade, period.

But now the Soviets have made it clear that no détente with the United States is possible as long as we are in Vietnam. They are seeking a détente with most of the nations of Europe in an effort to isolate the United States. This has always been their objective; it is now partly achieved.

It is said that increased trade with the Communists will "build bridges" relax tensions, and prevent war. History does not support the claim of success for this or any other form of appeasement of aggressors. Great Britain and Germany were trading directly up to the outbreak of both World Wars. The Russians were supplying goods to Germany up to June 21, 1941, the day Hitler attacked them.

It was said the wheat sales to the Soviet Union in 1963 would improve relations. But Soviet propaganda exploited them as evidence of the strength of the Soviet economy and declared that the United States made the sales in an attempt to strengthen its own shaky financial situation. Based on past experiences, there-

fore, we may expect the Soviets to doublecross our bridges before we get to them.

Here are some of the recent events and developments which refute the claim of a Soviet détente with the United States:

The Communist tricontinental conference in Havana; exposure of the widespread Soviet espionage network in the NATO countries; the Soviet-Chinese agreement on overland transport; the Soviet diplomatic offensive in Western Europe, seeking to unite East and West Europe and isolate the United States; the Soviet boycott of President Johnson's Water for Peace Conference; the recent bitter and false charge by the Soviet representative to the U.N. that the U.S. had created the so-called financial crisis in the U.N. artificially; the vicious Soviet propaganda attacks on the United States which have markedly increased in recent months.

A recent comparison by Radio Liberty of negative references to the United States and China in *Pravda* for a sample 10-day period is very revealing. For example, from September 1 to September 10, 1964, there were 313 negative references to the United States. From October 23, to November 1, 1966, there were 817. And from January 4 to January 13, 1967—after President Johnson's October speech—there were 1,120. In this same 10-day period there were only 250 negative references to China.

Further evidence of Soviet nondétente is to be found in the support of the Arab nations in the war with Israel; their continued support for Cuba and for "wars of liberation" in Africa, Asia, and Latin America; the violent, insulting and repeated rejection and rebuff of President Johnson's proposed concessions; the call for a world conference of Communist nations, including China, for the "defeat of the American adventure in Vietnam"; and the harassment of the United States Seventh Fleet by Soviet trawlers and warships.

Senator Lausche (D., Ohio) recently challenged his fellow Senators: "Show me one single step, one meaningful step the Soviet Union has taken towards a détente." No takers.

3. *The role of our allies in East-West trade.* From the beginning of the Cold War the issue in trading with the Communists was one of long-term security versus short-term commercial profits. From the start of the Cold War, or at least from the beginning of their rehabilitation under the Marshall Plan, our European allies—with the United States providing their long-term security—opted for the short-term commercial profits.

It may be said that they have eaten the cake of profit in trade with the Communists and have had the cake, too, of defense by the United States.

The NATO nations have failed to adjust to the fact that the Communist nations prefer political and economic subversion, guerrilla warfare, and terrorist tactics to conventional war. The United States and the other NATO nations have been preoccupied with the unrealistic multilateral nuclear force and military strategy for a war that probably will never be fought, instead of using their economic power in the war now being fought.

The penalties of the Battle Act, due to its escape clauses, were never applied. The multinational Coordinating Committee (COCOM) was completely ineffective. Established in 1950, it was not based on any formal treaty or charter and was not part of any other international organization.

The United States, in spite of its tremendous bargaining leverage, was unable to bring its allies to cooperate in an effective coordinated strategy, and the record indicates that it made no serious effort to do so.

The argument that if we don't sell to the Communists, our allies will, is of doubtful moral validity. Implicit in this argument is an admission that otherwise it would be wrong.

Furthermore, when a British company was bidding recently on a huge \$28-million fertilizer plant for Cuba, the London press was unanimous in predicting that it would be successful because the other nations that could provide such a plant were reluctant to violate the OAS embargo against Cuba.

In other words, instead of saying, "If we don't, others will" this time they were saying, "If others don't, we will." Which proves that consistency is no hobgoblin to the British mind.

When a strong protest was made in some quarters in the United States and the State Department administered a mild rebuke, the London *Economist* asked why we should object to this sale when we are encouraging trade with Eastern Europe. Touché!

4. *The war in Vietnam.* Finally we come to the question of making concessions to and trading with the Communists while we are fighting them in Vietnam.

Waiving argument on all the other issues—the allegedly peaceful goods, the nonexistent détente, “peaceful coexistence,” “peaceful engagement,” “building bridges,” and all the other shibboleths, the unanswerable, insurmountable, and unforgivable fact is that Soviet arms are killing our men in Vietnam.

The Soviets say, honestly for once, that there can be no détente as long as we are in Vietnam. We should be as honest and as positive in saying that there can be no détente and no trade as long as they are there.

Collective embargo, preclusive buying, and finally, if necessary, blockade—these should have been our first measures to contain Communism in Vietnam or anywhere else. Instead of pouring goods into the Soviet bloc, we should be stopping the Soviet goods moving into Haiphong.

Perhaps never before in history has a nation at war permitted the enemy to import all manner of arms, ammunition, and implements of war—MiG's and missiles, mines and mortars, military vehicles and petroleum products—if it had the power to prevent it. And all of this while the most powerful navy in history stood by.

Blockade is a belligerent's right, if properly declared and enforced. The nation that attempts to violate the blockade is the one which violates international law.

But if our allies or other non-Communist nations fear the consequences of a blockade, let them join us in restriction rather than expansion of trade with the Communist nations. Control of its trade is the sovereign right of every nation. It is nonprovocative but highly persuasive.

There are other nonviolent measures for ending this war and they are based on control of trade between non-Communist and Communist nations.

It can be argued that whenever a nation has a superiority of both economic and military power it may use its economic power without resort to military force. Professor Frank Trager in 1963 said we could have purchased the grain Canada then sold to China for \$300 million. If that looked like a good bargain then such a buy is a much better bargain today—about the cost of three days' fighting in Vietnam. Besides that, we need the grain now to make good our reserve deficit. What an opportunity for preclusive buying!

We are fighting a war of attrition in Southeast Asia—our attrition—when we could reverse the process by the exercise of our sovereign rights and economic power.

It's costing us, besides the \$30 to \$40 billion a year, thousands of casualties. It's costing the Soviet bloc \$1 billion a year and no casualties. Why should they want to end it?

Blockade may be the only realistic course left to us. It is more humane than bombing or any of the weapons of war. It might make possible a deescalation of the bombing.

Blockade is not irrevocable or irremediable. The damage it does can be stopped at any time. Indeed it can be prevented entirely. Blockade is prevention, not destruction; it is defense, not aggression. It is restraint—restraint of an adversary and restraint in the use of a nation's power.

Blockade in peace seeks to preserve the peace; blockade in war seeks to impair the enemy's ability to continue the war.

The effect of blockade is cumulative—an automatically escalating pressure that puts a premium on early negotiation and a resumption of trade between the erstwhile belligerents.

Blockade was the strategy that made the Pax Britannica possible in the nineteenth century. Its use might make a Pax Americana possible in the twentieth century.

The President said in awarding a medal posthumously to an American hero killed by a grenade:

“The question that haunts me today should concern every American. It is this: Was that grenade on one of the trucks or one of the trains or one of the sampans that we let pass unmolested during those 37 days [of a pause in the bombing]?”

The President's point was well taken. But a greater question that should haunt every U.S. citizen is how many of the 8,000 Americans killed in Vietnam to the date of the President's tribute were killed by weapons or ammunition allowed to pass unmolested through the Port of Haiphong? Many of them, perhaps most of them, died as a result of such weapons.

Should the United States trade with the Communist nations today while they are striving to conquer free nations throughout the world by force and subversion? Or should we adopt the policy of the Wilson Administration that doing business with the enemy is unthinkable?

To many, many Americans the answer is self-evident.

STATEMENT OF THE HON. THOMAS B. CURTIS, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF MISSOURI

Mrs. Kelly and members of the Subcommittee, thank you for the opportunity to present here my views on the controversial subject of trade with the Communist countries. This is very important work, for a number of reasons.

First, the subject itself is a highly controversial one, as you know, and deserves open discussion in the public forum of the Congress and its Committees. Second, it is a subject on which the Congress itself is loosely organized, which is one reason why I have accepted your kind invitation to appear here.

My point is this: responsibility for U.S. trade and commercial policy with Communist countries is separated among several House standing committees. The Ways and Means Committee has the responsibility for setting tariffs, and would be the legislative forum in which a bill to extend "most-favored-nation" treatment to these countries would be heard. The Foreign Affairs Committee has the "Battle Act", or the Mutual Defense Assistance Control Act of 1951, which authorizes the State Department to control exports to nations threatening the security of the United States, and authorizes United States participation in the 15-member COCOM (Coordinating Committee), the organization that maintains the agreed-upon list of strategic items that the members will not export to Communist countries. In addition to the Battle Act, of course, the Foreign Assistance Act contains provisions having to do with commercial relations with Communist countries.

Besides the Ways and Means Committee and the Foreign Affairs Committee, the Banking and Currency Committee also has jurisdiction through the Export Control Act of 1949. This Act is the President's authority to control exports of strategic goods through our extensive export licensing system. The Export Control Act thus provides the authority under which the President implements our COCOM agreements on strategic items, though the COCOM list is far shorter than the U.S. export control list.

Here is a clear case of bad planning by Congress. It is *our* responsibility to control and coordinate our own work flow. In this case we did not do so, and without reason, it would seem. In a memorandum addressed to me dated April 26, 1966, the Legislative Reference Service of the Library of Congress said: "We find nothing in the legislative history of these measures which directly answers your inquiry as to why they weren't integrated, why their provisions seem duplicative and why they were assigned to different committees."

The problem of overlapping jurisdictions does not end with the three committees I have named. Of the 20 committees of the House (16 in the Senate) there are about 15 whose jurisdictions in at least some way include foreign economic policy.

A partial accounting would of course include the Foreign Affairs Committee if only because of its East-West trade role, the Banking and Currency Committee for its work in the field of export financing and international monetary problems, the Agriculture Committee for its jurisdiction over P.L. 480, the sugar quota program, and the cotton textiles quota program, the Judiciary Committee for its role in international anti-trust, patent and copyright problems, and the Education and Labor Committee for its peripheral authority in the area of fair labor standards, and in the International Labor Organization.

The structure of Congress now provides no formal means for bringing together these committees to coordinate their approaches to foreign economic programs.

Coordinated Congressional work in the foreign economic field depends on Congress itself. One of the strengths of Congress is its flexibility. It can create its own task forces, ad hoc or continuing, including members of Congress from all the relevant committees, to properly synthesize Congressional work on the broad range of foreign economic issues in which so many of its committees have a part. Certainly Congress should itself take such steps as are necessary to do well its own work in this important field.

So I would here recommend that Congress itself undertake to create better procedures to coordinate its work in the area of trade and other commercial contracts with the Communist countries.

POLITICAL CONSIDERATIONS

If I may, I would like now to move on to some of the economic considerations that I consider important. In doing so I do not wish to ignore the political aspects of the "East-West trade" problem. These certainly are important, in-

deed, perhaps even overriding. On the political side of the question some have made strong arguments that the objective of expanded East-West commercial intercourse is justified if only on the basis that it will reduce suspicions, tensions, and frictions that can spill over into violence, thereby reducing the hazard of a general war, and that such commercial contacts would prove worthwhile even if they had no influence whatever on the internal economic policies of the Communist countries.

But this is not the question I am here to address. Instead, I would leave this political, essentially foreign policy question to those in Congress who properly deal with foreign affairs, like yourselves. My interest is the economic aspect of the trade question, and my objective here will therefore be to expose some economic problems which may have a very important bearing on your decisions in the foreign policy area.

#### ECONOMIC POLICY CONSIDERATIONS

In spite of considerable propaganda to the contrary, I would say that, on balance, U.S. commercial interest in "East-West" trade is relatively small. The Battle Act Report for 1966 indicates that total "free world" exports to all Communist nations (including North Korea and North Vietnam but excluding Cuba) was \$5.6 billion in 1963, an increase of \$440 million over 1962. In 1964 this figure was \$6.8 billion, in 1965 it was \$7.5 billion, and in 1966 it was \$8 billion.

Total free world imports from all Communist countries in 1963 according to the 1966 Battle Act Report were \$6.2 billion, an increase of \$.7 billion over 1962. In 1964 total free world imports were \$7 billion, in 1965 \$7.8 billion, and in 1966 \$8.3 billion.

The trade of all 15 Coordinating Committee (COCOM) members has maintained a stable share of total free world trade with Communist countries. On the export side, COCOM members' share of trade has fluctuated around 50% of total free world export trade with the East since 1959. On the import side, it has averaged about 47% of the total since 1959. So—while COCOM members have increased the dollar value of their exports from the East from about \$1.86 billion in 1959 to about \$3.7 billion in 1965, and their imports from \$1.9 billion in 1959 to \$3.9 billion in 1965, their share of the growth has been stable, though I will show later that *European* COCOM members' share of trade has decreased. Full trade data for 1966 are not yet available because the Battle Act Report has not yet been published.

What is the relevance of these data? In comparison with U.S. exports for 1966 of \$29.2 billion, and imports of \$25.5 billion, COCOM members' export-import trade with the East is very small, indeed. In relation to the growth of most nations' GNP and trade during the period since 1959 the volume of industrial COCOM trade with the East is not important.

#### THE TRADE POTENTIAL

If you accept the argument that the *present* U.S. economic stake is small, then the question is: "how large is the potential?"

Many large, well-managed U.S. firms with extensive international undertakings and a wide knowledge of world commercial conditions and opportunities have decided that expanded U.S. trade with Communist countries is desirable for commercial as well as political reasons. At least one would think so if advised by certain businessmen as they are represented by business organizations such as the U.S. Chamber of Commerce and the U.S. Council of the International Chamber of Commerce. And, of course, the "Miller Report" to the President expresses this view.

Large, heavy manufacturing firms do see the opportunity for one-shot deals worth several millions of dollars. Other firms see wide opportunities for taking advantage of latent markets for certain types of consumer products.

Of the first type, the plant sale is a good example. The company that can land a \$70 million contract to construct a plant not only can make a handsome initial profit but gets in good position to reap the fruits of future deals. For certain firms these types of prizes certainly seem well worth competing for.

Of the second type, an outboard motor manufacturer whom I met in Brussels, during my trip there last year in relation to the Kennedy Round negotiations, is a good example. Head of a Belgian subsidiary of a U.S. firm, his interest was in selling outboard motors to the state-owned resorts in the Black Sea. His eagerness to take advantage of this unexploited market was great indeed. Clearly he had

found an area where the Soviet Union and perhaps Bulgaria and Rumania might want to buy consumer items and where there was also a chance that sales could actually be consummated. It is from such European subsidiaries of U.S. firms that much of the incentive for increased trade with Communist countries apparently comes. This impression was substantiated by the President of the Chase Manhattan Bank in Frankfurt, who as a banker and a leading figure among the American Chambers of Commerce in Europe had a very good grasp of the aspirations of U.S.-related firms operating in Europe.

#### AN ESTIMATE OF THE REAL POTENTIAL

In spite of the desire of many U.S. firms to engage in trade with the East, and their belief that it can be profitable, I am led to examine what the real possibilities for increased two-way trade might be.

A number of factors appear to inhibit increased U.S. sales of both types of products. The nature of Communist economic systems prevents free exchanges of goods and capital. I like to use in this respect a metaphor comparing oil and water. In the metaphor, then, increasing East-West trade *without* resorting to strict bilateral controls is a problem of mixing the oil of the Communist system with the water of free enterprise.

In the case of Austria, for example, trade with the East is controlled and bilaterally balanced yearly in dollar units of account. Even trade between Britain and East European countries is bilaterally balanced though not strictly.

To quote an article by Maurice Ernst in a 1966 study for the Joint Economic Committee titled *New Directions in the Soviet Economy*, "The application of Soviet type policies and institutions in Eastern Europe had interrelated effects on the domestic use of resources and on foreign trade opportunities. Trade opportunities were to some extent limited by Western controls, but Soviet and Eastern European policies were much more important limitations."

#### WILL THE EASTERN COUNTRIES CHANGE?

Now the question becomes, will, and how fast will, the Communist countries change their state trading systems to reflect the image of free market economies?

Among the Eastern European countries, the reorientation of economic planning toward greater freedom from bureaucrat managers has developed slowly in the past two or three years. Formerly, as in the Soviet economy, the stress in economic planning was on politically determined output targets and on materials balances. A host of economic inefficiencies stemmed naturally from such "command economies." Now, however, at least according to Ernst, we are told that the desire to develop the branches of production for which the economy will be best suited in the long run, to use modern technology, and to compete in world markets has at least partly replaced the early drive to increase the quality of production at all costs. For the Soviet Union this theme is evident in the draft five year plan presented in February 1966. In spite of these developments, scholars of Eastern economies conclude that, while trying to make plans more rational and management more flexible, the Communist regimes have tried to avoid any real loss of state control over their economies.

In the Soviet Union change will probably be a good deal slower than in East Europe. There, at least according to Hertha W. Heiss in *The Soviet Union in the World Market* for the Joint Economic Committee 1966 studies, in spite of a growing awareness of the potential of foreign trade as an instrument of foreign policy, "foreign trade remains a small part of overall Soviet economic activity and its basic economic function in the Soviet scheme of things has remained essentially unchanged. That is, the procurement from abroad of goods needed for plan fulfillment, when they are not available domestically, with exports thus primarily serving the purpose of financing necessary imports."

#### SOVIET CONTROL OF ITS FOREIGN NEIGHBORS

One of the topics of interest to me when in Europe in December 1966 was the economic relationships between the Soviet Union and its former "satellites", and I would like to express my conclusions briefly here. It would seem that one result of the centrally planned economies of East Europe and the Soviet Union was that the Council for Mutual Economic Assistance (COMECON), which has been considered an instrument of economic control by the U.S.S.R., never really worked. None of the European members would accept the kind of supranational planning that was required were coordinated intra-bloc specialization actually

to be realized, in spite of a lot of persuasion by Khrushchev. But, of course, to say that because COMECON was ineffective as a means of intra-bloc economic cooperation and is now a dead letter is no argument that there is new "freedom" within Eastern economies. Instead of supranational control there is strong national economic planning, even though that planning may now be beginning to operate through market-economy devices. I have seen used the term "market socialism". This may be applicable to most of the Eastern European countries because ownership of the means of production remains in the state.

Instead of economic domination through a planning organization like COMECON, is it more likely that the Soviet Union has achieved a measure of control, and at the same time perhaps a measure of bondage, through the expansion of its raw materials trade with the Eastern European Communists? In 1963, the U.S.S.R. supplied nearly 100% of the area's net imports of materials and fuels, compared with two-thirds in 1960 and only 40% in 1955. The Soviet exchange of industrial materials and food for machinery and equipment, the largest element of Soviet imports, is certainly profitable when the machinery and equipment embodies advanced technology that the U.S.S.R. can produce only with difficulty, if at all. This exchange may not be profitable, however, when the imports consist of ordinary machinery and equipment, which embody the same general level of technology available from Soviet production. According to Dr. Ernst, most Soviet machinery imports from Eastern Europe probably are of the latter type.

One reason I mention this two-way relationship is that it points out an avenue of strategy that is at least intellectually bemusing: an aggressive strategy of trade warfare that would entail U.S. willingness to supply to selected East European countries industrial raw materials at delivered prices less than those charged by the Soviet Union, and to stand willing to purchase those countries' industrial manufacturers were the Soviet Union willing to continue purchasing them. However, in a time when U.S. policy is aimed at "detente", such an aggressive policy would no doubt be considered inappropriate.

#### REAL CHANGE HAS BEEN SLIGHT, AND THE PROSPECTS FOR INCREASED TWO-WAY TRADE ARE NOT ENCOURAGING

But the essential point I wish to make is that to date change in the economies of Eastern countries has been quite slight. It is a direction we probably want to encourage them to pursue, but we must not be deluded by it—state ownership prevails and comprehensive planning will continue. Like the mercantilists, Eastern economic and political planners consider trade largely a means of increasing state power.

Until Eastern economies so reorient their production as to be able to produce economically and well products they can sell for hard currencies, there is apparently little prospect that really meaningful two-way trade with the West can grow. This is of course precisely the argument now being used to allow a selected few actual production industries in East European countries to deal directly in foreign markets rather than to deal through foreign trade organizations (FTO's), the agencies that are mostly responsible for foreign trade.

By dealing in "markets" (the free world economy) it is thought that these industries will develop competitive lines of products that will enable greater sales, greater hard currency earnings, greater purchases of badly needed industrial goods, and more rapid economic development.

So we can see that Eastern countries' ability to buy is limited by many factors. It is limited by the ability to compete and sell in world markets, which is limited by the very nature of Communist economic organization. And, most importantly, it is limited by the ability to pay with currencies and gold.

#### THE EASTERN COUNTRIES' ABILITY TO PAY

About the ability of the Soviet Union to purchase with hard currencies there has been much discussion. This discussion is important here because, no matter how Western countries' credit policies differ, the actual ability of Eastern countries to pay with hard currencies will be the ultimate limitation on purchases from the West, and therefore on increased two-way trade.

It would seem that the Soviet Union has limited hard reserves. Its traditionally favorable balance of trade reversed in 1964 with a deficit of \$55 million, largely because of large purchases of U.S. grain. The deficit on trade account is not likely to be offset on capital account because of the drain of the Soviet foreign

aid programs, though such data seem difficult to obtain. U.S.S.R. ability to produce gold is said to be much less than some, particularly in the London bullion market, have believed. I discussed this matter at some length with officers of the U.S. Embassy in Paris where the U.S. stations its representatives to the COCOM, who assured me that the U.S. view that the Soviets are not really so rich in gold now prevails at least among NATO members.

In view of this situation, Soviet interest in long-term credits from the West is clear. It also explains the more conservative Soviet approach to use of short and medium term credits and to purchases from the West in general which has been especially evident since Khrushchev's ouster. This reticence to spend hard currencies and sell gold with abandon results from a strong Soviet desire for autonomy. I understand the Soviet Union tries to keep hard currency and gold reserves large enough to meet its needs for a period of 8 months, which is a very large reserve by normal standards. One reason it keeps such a stock, I have read, is in case of a crop failure or other such emergency need.

I do not have adequate data indicating the extent of the Eastern European ability to buy. If I rely on statistics in the 1966 Battle Act Report alone, the import and export trade of the Eastern European countries as a group (Poland, East Germany, Czechoslovakia, Hungary, Rumania, Bulgaria, and Albania) with the free world has been very closely balanced: exports were \$3.129 billion and imports were \$3.1 billion for 1964.

The extent of this close bilateralism is striking. Existing trade with the free world does not produce a surplus of hard currencies that could be used to buy from the United States, and, until these countries begin to produce items saleable in quantity in the U.S. market, it seems that there can be little significant improvement in trade.

#### THE EFFECT OF NEW U.S. TRADE LEGISLATION ON COMMUNIST COUNTRIES' ABILITY TO BUY

At this juncture one might argue that, were the United States to apply most-favored-nation tariff rates to the East European Communist countries, the possibilities for their expanded export trade would be greatly increased, and therefore we ourselves would be able to sell more to them.

I must say that my examination of a selection of potential export items gives little cause for optimism about the future of increased trade if it is to be based on these items. For example, for the Soviet Union, bristle, dried mushrooms, pine needle oil, oils and certain glass, pile rugs, rifles and phonograph records might have sales potential in the United States. The same products and types of products—evidence of what I would consider to be a low level of economic development—reappear in the lists of tables for other Eastern countries. Textiles—wool rugs, and wool apparel from Rumania, cotton cloth and cotton apparel and wool fabrics from Hungary—are already very highly "import sensitive" in the United States. Glass—from the U.S.S.R., Rumania, Czechoslovakia—could be considered to be in the same category, witness the only partially removed escape clause on Belgian glass. Bicycles—from Czechoslovakia—have been the subject of antidumping investigations. Leather footwear—from Rumania—is the subject of a continuing barrage of "protectionist" sentiment in the U.S. The most promising potential trader is Czechoslovakia, which is listed as being able to supply such advanced manufactures as medical instruments, electrical measuring devices, and machine tools. But other "sensitive" items for import from Czechoslovakia include steel wire and nails.

Is it really likely that these nations can produce these items more cheaply than the United States can? If they cannot, and if the price that is placed on such exports is artificially low so as to enable sales in the U.S. market, then it can be expected that American industries will use unfair competition arguments against them, including but not limited to antidumping, countervailing duty actions and special marking requirements. I could even foresee the possibility of massive consumer embargoes against "Communist products". Even if such goods are priced realistically and are below or comparable with U.S. prices, the same types of arguments will be used against them. Because pricing systems in such countries are at present meaningless, it would be very difficult indeed to defend low-price imports in terms of the usual comparative advantage arguments.

One could argue that by promoting Communist exports to the U.S. at MFN rates, we would be displacing exports of the developing countries to this market.

This is a particularly valid criticism in the cotton textile sector. As you know, at least one reason why European countries do not wish to bind themselves to

increasing annually textile imports from the developing countries members of the Long Term Cotton Textile Arrangement (LTA) is that they want to be able to balance bilaterally their trade with the Eastern European countries by taking from them cotton and other textile products as needed to strike balances.

Thus, on the basis of possible exports the ability of Communist countries to buy from us and our interest in buying from them is small. And the prospect of expanded trade at MFN rates in some items likely to be traded causes real question.

To substantiate somewhat my conclusions, I would like to quote from p. 68 of the May 1965 report on East-West Trade of the respected independent British research organization, Political Economic Planning (PEP), with whose director I visited when in Great Britain last December:

"... there will probably be steady progress in the size of the trade and the conditions under which it is carried on. But this progress is not likely to be dramatic for a long time to come.

"The size of the trade is limited by the East's ability to export to the West, and there is no sign that this is going to increase enormously over the next few years. Consumer goods of the quality required in the West, and probably capital goods too, are likely to become available in quantity from Eastern Europe only insofar as the East European countries evolve in the direction of market economies, so that the consumer's choice bears more directly on the products. A change of this sort, even when it has been initiated, takes time to work itself through the economy and to become reflected in a consistently high quality of production."

I would say that these conclusions are shared by the Business and Industry Advisory Committee (BIAC) to OECD in its May 1966 Report expressing the consensus of the OECD member business organizations it represents.

The PEP Report does go on to specify certain steps, many of them institutional adjustments and arrangements, that can be taken to allow greater East-West trade on what it considers to be a sound basis. In line with official British policy, the PEP Report is based on the decision that greater East-West trade is desirable. But the constraints it acknowledges on the potential volume and the nature of the trade are sobering.

#### IS COMMERCIAL COMPETITION WITH EUROPE AN IMPORTANT CONSIDERATION?

This leads me to discuss briefly the problem of European COCOM members' sales to Eastern Communist countries. Unquestionably the dollar value of this trade has increased—European COCOM members' exports increased from \$1.7 billion in 1960 to \$2.7 billion in 1965. But the percentage of the total value of their trade with the Communist world has actually declined from 46% in 1959 to 32% in 1964 and 35% in 1965. It is true also that since the middle of the 1950's the size of the several COCOM lists of strategic embargoed products has declined to the rather silly point where they only contain about 120 items. It seems quite true that any real Western cooperation has broken up entirely on the issue of the amount of trade with Communist countries, and on the terms for financing that trade. The United States does indeed, as U.S. Ambassador to the Organization for Economic Cooperation and Development, Philip Tresize, in Paris, explained to me, seem isolated in a sense "behind" our European friends and allies.

I would argue that this apparent conflict of policies should not give us much pause. If you accept my argument that there is relatively little present and potential commercial U.S. interest in sales to the Communist countries, and if you also accept that, as Europeans argue, there is also a profound technology gap between American and European industry, then we have very little indeed to lose in maintaining a separatist attitude. So I would pose this question: Why not continue to allow Europeans to sell items not on the COCOM list, and why not continue to enforce meaningful controls on U.S. exports to the Communist countries? European trade with the East is now bilaterally controlled to the extent that it seems rather repugnant to have to arrange our own trade along similar, "mercantilist" lines.

#### SOME ELEMENTS OF SOVIET ECONOMIC STRATEGY

In a December 1962 compilation of study papers for the Joint Economic Committee, Mrs. Penelope Thunberg, now a Tariff Commissioner, wrote:

"Soviet economic intercourse with industrialized non-Communist countries has always represented a time-saving device, for trade has made possible a rapid shift from a primitive to a modern, more productive technology in a large number of industries. So long as some part of the Soviet economy lags technologically behind the West, the U.S.S.R. will always have available a ready device for buoying its growth rate through imports. In shifting to a more advanced—i.e., more productive—technology, the Soviet Union borrows all the resources, including time, that must go into the research and development of more efficient techniques."

Mrs. Thunberg's observations about Soviet purchases of time and technology through trade are borne out at least in the Penkovsky papers, particularly Chapter IV, titled "Penkovsky's Committee", which deals with the State Committee for Co-ordination of Scientific Research of the U.S.S.R. Council of Ministers. There he describes the very complex and very thorough technological espionage organization maintained by the Soviet Union. The espionage function of this organization is at least hinted at in the U.S.S.R. Council of Ministers May 1961 Decree on Reorganization of Research which provides that:

"Soviet science and engineering must in the shortest possible time take the leading position in the world in all decisive fields of science and engineering."

And that, in furtherance of this goal, the State Committee on Research shall:

"Study and evaluate scientific and technical advancements with the aim of utilizing those advancements in the national economy of the U.S.S.R. and also coordinate the international scientific and technical contacts of the ministries, administrations, and scientific research organizations."

The activities of the AMTORG in the United States have long been suspect if not completely documented, and I understand that part of the Soviet technological development effort consists in purchasing highly advanced manufactures for use as prototypes in building their own. To support this I would like to quote from a study by Mr. Donald Petroni, partner of the Paris law firm of O'Malley & Myers, titled "Doing Business in Eastern European countries": "Without such [patent] protection, any United States firm that sells one or more pieces of equipment to an Eastern European buyer must understand and assume the risk that it will be copied." Even with patent protection it is difficult to be sure patents are not violated. There have been several important cases of violation in Eastern Communist countries.

If the United States possesses the most advanced technology in many areas and continues to generate it, a policy of withholding technology-carrying trade may continue to have strategic significance, if in fact the policy we wish to pursue is one of restraining the growth of totalitarian regimes.

Do we wish to continue to attempt to restrain the growth of totalitarian regimes? I realize this is the nub of the question. But it would be beneficial to this discussion and perhaps also to public discussion if the arguments for and against "East-West" trade were couched in these terms, rather than muddled with arguments of U.S. commercial advantage that I consider to be overstated and ill-founded.

Perhaps there is now a basis for deciding that it is best to accept the Soviet system in a spirit of tolerance as one would tolerate a different religion. Assuming that we make that essential decision, perhaps there is some political benefit to the United States in a selective and flexible policy of expansion of trade in "non-strategic" items. (I think it might be best to pass over the question of what is strategic and non-strategic, with a quick acknowledgement that there certainly is no good dividing line. I lean towards the idea that for a tightly planned economy continually strained by unrealistic output goals, all imports whether strategic or non-strategic tend to lessen the squeeze and allow more resources to be devoted to strategic, perhaps autarkia, objectives.)

#### THE POSSIBLE POLITICAL GAINS FROM TRADE

What are the benefits we might gain? I think you will agree that the main arguments are that by selectively and flexibly pursuing trade the United States might be able to favor some Communist countries over others, favor some Communist leaders over others, thereby increase the dependence of certain of these countries on the United States, and at the same time decrease their dependence on the Soviet Union. Still further one could argue that expanding U.S. trade and commercial contacts with the Communist countries could encourage those economies to further rationalize and structure their economies by using market economy techniques, one could even hope that eventually governments will divest them-

selves of ownership of enterprises at least in non-crucial areas as they strive to produce consumer goods of high-enough quality to be genuinely desired in the West. Such production would have to be accompanied by genuine cost accounting. The result of such developments would be junking of the bilateral arrangements between East and West European countries, real multilateralism in trade, and along with it freely convertible currencies.

The above is a happy prospect but it is indeed far in the future. In the near term we have to deal with the realities and encumbrances of Western commercial contact with the East—contacts constricted, in fact dominated, by the nature of the economies with which we deal. The facts of state planning and state ownership and therefore of state-trading require bilateralism and prevent multilateralism.

A fact of very great interest and some portent is that, in spite of its desire that trade be expanded, the BIAAC report cited above says that "in the foreseeable future at least BIAAC sees little possibility of any substantial change in the present fundamentally bilateral character of trading relationships between East and West."

At best the BIAAC can only recommend that within bilateral arrangements certain difficulties should be smoothed out, but it cannot even recommend doing so through multilateral instead of bilateral action. The Report concludes only that "more is likely to be achieved by pragmatic efforts toward securing an equitable and mutually advantageous expansion of trade by means of a quid pro quo technique for negotiating meaningful and balanced concessions on the basis of effective reciprocity under the different economic systems." This is hardly a bright forecast for the future of East-West trade in an open market.

It would seem to me that a very great deal depends on the real motivations of the East Europeans and Soviets themselves. I myself might be more prone to accept an expanded East-West trade policy were I assured that in fact the United States through trade could influence those countries to develop open societies in which people are allowed an increasing measure of personal and political freedom.

Even were we to be assured about their real motivations, the fact that the Soviet Union and the East European Communist countries are giving tangible as well as moral support to our enemies at war, North Viet Nam and the Viet Cong, creates tremendous political difficulties to a policy of greater trade. So, apart from the factual considerations that I have been exploring, this political question is of paramount importance to our discussion.

#### CONCLUSION

So, in summary, I would say that, in strictly commercial terms, the United States has little real and little potential commercial interest in increasing trade with the Communist countries in the near future. In fact, I can foresee certain economic disadvantages to such a course of action, most notably the possibility that we would have to embroil ourselves in mercantilist bilateral trading agreements which to me are distasteful at best.

Thus the base for the argument for increased East-West trade shifts from the economic to the political. Here it seems to me the key questions are, can we really influence the Communist countries to shift toward freer societies? Can we influence not just their economic development but their political development as well? And, ultimately, will increased trade relations really bring about decreased political tensions and reduce the risk of war? I have often said that more war and peace are wrapped up in trade than most of us are willing to recognize, and perhaps here there is indeed a valid argument for the encouragement of "East-West" trade. But these, I submit, are the questions for your Subcommittee to study and discuss, and for your recommendation to your colleagues. I certainly commend your interest and your effort, and await your conclusions with great interest.

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#### STATEMENT OF HON. GEORGE A. GOODLING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Madam Chairman, I am co-sponsor of H. Res. 937, legislation designed to create a select committee composed of nine Members of the House of Representatives that would conduct a full and complete study of the impact of East-West trade.

The concept of East-West trade resolves itself into two considerations: (1)

economic benefits for the United States and (2) American national security.

Proponents of East-West trade have coined the phrase "building bridges of trade," and while the phrase might have a pleasing sound, its economic applications on the surface are purely phony.

For instance, last year a thorough study of East-West trade was made by Dr. Mose L. Harvey, director of the University of Miami's Center for Advanced International Studies. This study was published in a 175-page book entitled *East-West Trade*, and through Dr. Harvey's calculations the total amount of exports that Russia would be able to pay for from the United States would be well under \$200 million a year. Inasmuch as our total exports of goods and services presently amounts to about \$45 billion annually, our exports to Russia would amount to less than one-half of 1 percent of these total exports—a few individual companies in America might get something out of this trade, but for the country as a whole the gain would, in effect, be trivial.

As far as imports are concerned, the United States would have to accept in payment goods that it neither wants nor needs. Technically, America might be able to sell as much as \$300 million in goods to Russia annually, providing we were willing to give government-to-government long-term credits—this would, however, amount to a subsidy for the Communists, something to which every American would be opposed.

Over and above this, international politics would be involved, with Russia being the beneficiary. Inasmuch as the western alliance against Russian communism already is wobbly, any program of competition between the United States and western European countries to see who could help the Communists the most would only act to weaken this shaky opposition further.

Soviet Russia would, on the other hand, gain substantially from trade with America, both economically and internationally. Russia would, for instance, be able to satisfy its backlog of demand for advanced U.S. equipment, machinery, complete plants, technical data, and know-how. Too, such trade would make Russia loom like a giant in the eyes of her communist cohorts.

While the economic benefits to the United States of East-West trade have the surface appearance of being negligible, such trade would have profound national security significance. All of us are very interested in effecting a successful conclusion to the war in Vietnam, and we are also aware that Russia is very much involved in this war through the assistance it is extending the North Vietnamese. Why not, then, develop a meaningful and tangible American policy that would offer American trade with Russia only on the condition that the Soviet Union give a real demonstration of cutting out the aid she presently is pouring into Vietnam?

In fact, Madam Chairman, I have introduced House Concurrent Resolution 360 to the Congress, which provides as follows: "That it is the sense of the Congress that the Government of the United States should only consider further expansions of trade, educational and cultural exchanges, and other related agreements with the Soviet Union and its East European satellites when there is demonstrable evidence that their actions and policies with regard to Vietnam have been redirected toward peace and an honorable settlement and when there is demonstrable evidence that they have abandoned their policy of support for so-called wars of national liberation."

In summary, then, while East-West trade seems to promise little in the economic area, it might—if properly implemented—serve as a valuable instrument in advancing our national security. I recommend that this Committee give this concept its very serious consideration.

Madam Chairman, I want to express my deep appreciation for having the opportunity of presenting my statement to this Committee.

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STATEMENT OF HON. DURWARD G. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Madam Chairman, today we are under attack from a force that uses subtle and sophisticated means in achieving a goal of world domination. This force is international communism, and despite all the rationalization that has inundated the American people, it is still bent upon a path that calls for the destruction of our Republic and its peoples freedoms.

Their means are many: Subversion, infiltration, propaganda, terrorism, and now trade. We are continually told that the expansion of East-West trade is a

"bridge-building" device whereby the Communist bloc will become liberalized and less aggressive. I have yet to be convinced that any of these results have occurred and believe that trade is but another cold war tactic being used by the Communists to further their own goals. For this reason I cosponsored, along with about 120 of our colleagues, a resolution asking for a House study on the impact of East-West trade.

Madam Chairman, why such a study? Well, I think the answer is quite obvious. We are supplying the Communist bloc with materials and with technology while they are supplying North Vietnam with the weapons to kill and maim Americans in Southeast Asia. We are supplying the Communist bloc with materials and with technology while they are supplying the Arabs with weapons so that they might try again to commit genocide upon the Israeli nation. We are supplying the Communist bloc (Poland) with materials and technology while they are supplying Castro with the weapons so as to create "wars of liberation" right on our own doorstep.

How can this be termed "bridge building" when the Communists refuse to construct a span from their "bank" and are burning down the span that we are constructing from our "bank"? I have yet to find a logical and rational answer to this query.

Now, Madam Chairman, I would like to address some comments toward France and more particular toward the senile leader that rules our former ally. I feel that this subject is germane since in your press release you stated that "this project is to determine what changes have taken place in the structure of East-West trade since our last review, and how these changes may affect our foreign policy objectives in Southeast Asia and in other areas." "Le Grande Charles" certainly fits within the category of "other areas."

On January 11th of this year, I introduced in the House of Representatives a House concurrent resolution urging the President to take such steps as may be necessary to require the Republic of France to make full and prompt settlement with respect to past due amounts of its World War I indebtedness to the United States. At the time I introduced this resolution, which is still pending before the House Committee on Ways and Means, I had no way of knowing the length to which Charles de Gaulle would go to embarrass the United States—such as his recent attacks on the integrity of the dollar in international finance! But, if I thought my resolution had merit 11 months ago, the arguments for its consideration and adoption have multiplied tenfold in recent weeks. For months, until the French economy began to run into trouble in midyear, De Gaulle tried to undermine the United States economy. By turning his dollars into gold, he depleted our gold reserves at an alarming rate.

If the French President had not blocked, with vindictive determination, Britain's entry into the Common Market, the economic plight which brought the pound devaluation two weeks ago, could have been avoided. Meanwhile, his political overtures toward the Russians and his support of the Vietcong follow in the wake of a disastrous French colonial policy in Indo China that brought chaos to Southeast Asia, and forced our own involvement there. He had tried to wreck NATO, which for 20 years held a protective umbrella over his homeland. He has gone out of his way to hurt the United States economy and our position in international affairs, even while refusing to pay off France's financial debts to the United States. This includes six and one half billion dollars from World War I loans. It also includes about \$400 million in debts since World War II, but it does not include the outright aid we have given him since the Marshall Plan was inaugurated in 1947.

Up to last year, a total of \$3.3 billion worth of U.S. gold was transferred to French ownership through her purchase of our gold with her dollar credit surpluses since 1960. In view of the massive assistance rendered by the United States to France in two wars and through foreign aid, De Gaulle's attitude is indefensible. All the more so since the dollar surplus enjoyed by France is, in substantial measure, due to the American post-war aid to France.

There is no question as to the legal basis for collection of our debts from France, or for the French obligation to repay them. The debt was never cancelled by the United States. In fact, the amount of dollars spent by France, so far, on United States gold could have paid off 58 percent of the delinquent French indebtedness!

The time has surely come for a showdown with the man in the Parisian Ivory tower. A good place to begin is to request the payments of France's debts to the United States.

In closing, Madam Chairman, I claim to be no expert on international economic policy, but as a member of the House Committee on Armed Services, I am quite cognizant of Communist material and arms being used to drain the youthful life-blood of our Nation and to subvert our interests elsewhere throughout the world. The expansion of East-West trade has produced nothing but a decided Communist advantage and I hope that the American people will finally become aware of this folly. I compliment you and your subcommittee, and feel confident that this distinguished subcommittee will study this grave situation and make appropriate remedial suggestions and proposals.

Thank you, Madam Chairman.

STATEMENT OF HON. CRAIG HOSMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Madam Chairman: I commend you on your concise statement regarding the opening of these hearings to study the issues of East-West trade. With approximately 100 bills introduced in the House calling for Congressional studies and action on numerous aspects of trade with Communist countries, the concern of the American people and their Representatives is well documented.

House Resolution 848 which I cosponsored calls for the creation of a Select House Committee to study the impact of East-West trade on the productivity and capability of nations which support aggression, directly or indirectly, supplying North Vietnam, North Korea, the Middle East and Cuba or any Communist faction within any nation in Latin America with military, technical, economic or financial assistance. From this study should come well-informed, effective legislation on our foreign policy commitment and application in this area.

Proponents of East-West trade point toward "changes" in the Communist nations, a better balance of payments for the U.S. and the relaxation of tensions through trade. They yell "short-sightedness" at opponents and offer a "come-let-us-be-friends" attitude to the East. All Americans would welcome this mutual action, if it offers a true basis for peaceful coexistence.

However, those who oppose East-West trade, and I count myself a strong adversary, point toward past experience with the Soviet Union and her satellites. From Cuba, the Middle East, Korea, Vietnam and the current, hotly-disputed arms build-up in Algeria, I can see only danger in lowering our export-import control bars any further.

It was the encouragement the Soviet Union gave to Egypt and Syria that led to war in the Middle East and the threat of a third world war. The fact that the Soviets were influential in triggering the Mideast's fighting demonstrates how right those of us were—and are—in opposing the policy of expansion of trade with the Communist bloc.

The facts are that for all practical purposes, our current controls—the Battle Act and Foreign Assistance Act—are not being enforced, despite repeated violations. Evidence shows that Communist-bought, Western-made equipment and parts are even now being used against our own men fighting in Vietnam. Is this the foundation for peace?

While hearings before this Subcommittee offer a chance to determine what changes have taken place in the structure of East-West trade since the last review, no positive action seems to materialize. The need is critical for a study and subsequent legislation, based on the findings of a Select Committee as proposed in H. Res. 848. The instability of our present course is dangerous and should be changed without delay.

I urge favorable action on this legislation.

STATEMENT OF HON. WILLIAM L. HUNGATE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Madam Chairman and other distinguished Members of the Subcommittee, on September 28, 1967, I joined several notable colleagues in co-sponsoring a resolution that would create a select committee to investigate and study the impact of East-West trade on the productivity and capability of nations which supply North Vietnam, North Korea, the Middle East, Cuba, or any Communist faction within any nation in Latin America, or elsewhere with military, technical, economic, or financial assistance.

The war in Vietnam appears to have estranged and alienated us from some of our closest friends in the Western Alliance who continue to trade with North Vietnam and Communist China.

Our allies did not trade with the enemy in World War II or during the Korean conflict. It is a matter of concern that when they abet the Communist system, the peace of all free nations is threatened. We must explore all means to curtail trade that is not, on balance, favorable to the free world.

A reasonable reappraisal of current exchange conditions should be reflected in our foreign policy.

I, therefore, urge establishment of a select subcommittee to assess the structure of East-West trade so that they may better assist our national goals and priorities.

Thank you.

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STATEMENT OF HON. DELBERT LATTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

We enter into this discussion of the question of East-West trade at a perilous time. It is a time in which Americans are engaged in battle in South Vietnam and in which an American ship has been captured in an hostile and aggressive manner by the Government of North Korea. It is a time in which the Soviet Union has been asked to mediate the ship's release, and has refused.

We face the problem of the Administration's proposals, therefore, in a time of crisis and not of tranquility. We face the question during a period in which Communist governments are becoming more aggressive, and not less so. We are asked to seek new directions at a time when Communist governments appear to be irrevocably wedded to the old.

Several important questions present themselves, for they relate to what appear to be inherent contradictions in the Administration's proposals for liberalized trade relations with Communist countries.

A Presidential Commission on East-West Trade reported on May 6, 1965, that a relaxation of restrictions on trade between the United States and the Soviet Union and the Communist countries of Eastern Europe would help promote American foreign policy objectives.

It said that the only basis for its proposals was to make possible some "hard bargaining" by the United States for political advantage. Ordinary motivations, such as for economic or financial gains have no place in trade relations with the Communist countries, it said.

It expressed the view that the possibility of influencing through expanded trade both the internal evolution and external behavior of Communist countries in Eastern Europe far outweighs any political or military risks involved.

At his press conference on October 7, 1966, President Johnson said that "We will reduce export controls on East-West trade with respect to hundreds of non-strategic items. I have just today signed a determination that will allow the Export-Import Bank to guarantee commercial credits to four additional Eastern European countries, Poland and Hungary, Bulgaria and Czechoslovakia. This is good business and it will help us—it will help us to build bridges to Eastern Europe."

This announcement was followed by a number of significant statements in support of increased East-West trade by such top ranking members of the State Department as Averell Harriman, Nicholas Katzenbach, Eugene Rostow, and Foy Kohler.

Perhaps the most outspoken criticism of opponents of East-West trade came from Ambassador Averell Harriman who, on the November 23, 1966 NBC-TV program, "The Today Show," labeled the opponents of trade as "bigoted, pig-headed people, who don't know what's going on in the world that have prevented us from helping our balance of payments."

There is a certain contradiction here. The Presidential Commission said that the reason for increased East-West trade was not our balance of payments, as Ambassador Harriman urged, but political. If we have liberalized conditions within Communist countries, and have caused them to pursue a less aggressive foreign policy, such trade would be considered successful.

Which is the Administration's reason for urging liberalized trade with Communist countries? Is it political, or is it economic? Is it to "build bridges to the East" or to assist our balance of payments problem?

Before any decision can be made with regard to the proposed program, it is essential that we know what its goals are to be.

But it seems clear that the Administration has not abided by the recommendations of the Presidential Commission. That Commission urged that trade relations with Eastern European countries and the Soviet Union "... should not be subsidized, nor should it receive artificial encouragement." Yet, the Administration has recommended such measures as the financing of deals between Fiat and the Soviet Union through the Export-Import Bank.

Is it the proposed policy to subsidize trade with Communist countries? If so, how will this assist our balance of payments problem? If not, why has the Administration urged such action?

The President's Commission stated that "we rule out from these considerations any kind of strategic trade that could significantly enhance Soviet military strength."

The Sixteenth Battle Act Report stated clearly that "The basic policy underlying the Mutual Defense Assistance Control Act (the Battle Act) is one of preventing to the extent that we are able the shipment to the Sino-Soviet bloc of strategic items which would contribute significantly to the military-industrial potential of the bloc."

In 1966, the Commerce Department relaxed export restrictions on about 400 "non-strategic" commodities for shipment to Russia and Eastern Europe. Among these were textile products, some metal manufactures and machinery, foodstuffs, chemical materials and products, and a variety of manufactured articles. These products can now be exported to Eastern Europe without prior specific approval of the Commerce Department.

The facts seem to contradict the policy. They also contradict the statement made to the American people by President Franklin D. Roosevelt in May of 1940. He said that "The American people will not relish the idea of any American citizen growing rich and fat in an emergency of blood and slaughter and human suffering." This was more than a year before Pearl Harbor, and at that time no Americans were fighting either in the European or Asian wars. Today, in the face of Vietnam and the current Korean crisis, our attitude is far different. As a result of President Johnson's order of October 12, scrap iron and scrap steel are back on the "approved" list and the junk peddlers are sending it over to Russia to help build the Russian war machine just as was done with Japan in the last 1930's and in 1940.

What does the Administration mean by "strategic goods"? On May 9, 1967, our government approved a shipment of polyvinyl butyral valued at \$268,975. This product is primarily used as an interlayer in bullet resistant glass.

According to a top missile expert, C. Stark Droper, "The key area for advance in control and guidance is still the region in which the basic limitations exist—that is, the high accuracy sensing of geometrical information." On February 1, 1967, the Commerce Department authorized shipment of just such an instrument, a Worden Gravimeter.

Prior to removing a number of items from its category of "strategic" goods the Department of Commerce issued a press release declaring that the items removed "... fall into the category of peaceful goods, which may be freely exported without risk to the United States national interests." It also asserted that it had "... consulted with other interested departments, including Defense, State, Agriculture, Interior and the Intelligence Community, in taking this step."

The evidence points to the fact that the Administration did not consult the intelligence community at all. The Director of Naval Intelligence states: "The Office of Naval Intelligence, definitely a member of the 'Intelligence community', had no part in the consultation which preceded the revision of the Commodity Control list."

The Air Force stated that "No intelligence office of the U.S. Air Force participated in the revision of the Current Commodity Control list."

The Army stated that the Assistant Chief of Staff for Intelligence "was not consulted regarding the commodities listed."

The Department of Defense said that the Defense Intelligence Agency "was not requested to supply intelligence on the 400 commodities that are covered in Current Export Control Bulletin Number 941."

If the Administration really intends to increase trade only in "non-strategic" goods, we feel it essential that it tell us exactly how such a determination was made, and is to be made in the future. What is a "non-strategic" good?

On March 10, 1966, and again on August 16, 1966, the Commerce Department approved shipments of diethylene glycol worth \$482,250. This chemical is used in the manufacture of explosives and liquid rocket propellants. It can also be used as plasticizer in solid rocket propellants of the type suitable for air to air missiles such as are in Vietnam. Under what definition is the item considered "non-strategic"?

Setting forth the State Department's view of East-West trade, Eugene M. Braderman, Deputy Assistant Secretary of State for Commercial Affairs and Business Activities, said that "one of the most important premises is the fact that these countries differ very considerably among themselves, both in their internal systems and in their relations with one another . . ." He noted that ". . . in consequence, U.S. policy expresses itself in different ways toward different Communist countries."

Mr. Braderman conceded that "in some instances the behavior of a Communist country will warrant our denying trade with it completely . . . in other instances it best serves the U.S. interest to encourage trade with a Communist country."

Since the Soviet Union represents a case of that kind of Communist country with which the Department of State seeks to increase trade, it is interesting to see what the Soviet Union's relationship is with a Communist country with which the Department of State does not wish to trade, namely North Vietnam.

The Administration will, of course, not trade with a Communist government which is shooting at Americans. This would be aiding the enemy. It would be immoral as well as impractical. But—does the Administration advocate increased trade with a country which is in turn supplying our enemy with the means of war?

In an extensive study of Soviet aid to North Vietnam, Professor Albert Parry, chairman of Russian Studies at Colgate University, points out that ". . . it is estimated that the ten years through 1964 Soviet aid to North Vietnam totaled some \$350 million. It faltered somewhat in 1963 and 1964 when Khrushchev apparently was resigned to seeing the country in China's orbit . . . But Khrushchev's successors have revived the Soviet interest in Ho Chi Minh . . . Moscow's exports to North Vietnam rose from 47.6 million in 1964 to more than 74.8 million in 1965—this of course in addition to some \$555 million worth of arms sent in 1965 alone."

In March, 1966, the Soviet Union replied to Chinese charges that Soviet help to Hanoi was insufficient and represented a lack of interest in conflict. The Moscow leaders sent a confidential letter to Communist leaders stressing that in 1965 North Vietnam received from the Soviet Union arms and military equipment worth half a billion rubles. The list included rocket installations and conventional anti-aircraft guns, MIGS and other planes, and tanks, coastal artillery, and small warships.

Since the fall of 1965, the number of conventional anti-aircraft guns in North Vietnam has risen from 1,500 to at least 5,000. One unofficial estimate puts the figure at 7,000. In the fall of 1965 there were only four North Vietnamese batteries firing SAMs. By early October, 1966, this number had risen to 25 or 30, each with six launchers.

As recently as September 23, 1967 the Soviet Union concluded a series of agreements with North Vietnam, providing for continuing deliveries of military and economic aid to Hanoi in 1968. A joint communique issued at the conclusion of about a month of negotiations specified that the military material would include ground to air missiles, planes and artillery.

The Russians may speak of "peaceful coexistence" but their actions point in the opposite direction. They may speak of better relations with the West, but as they train North Vietnamese soldiers and airmen, and provide the North Vietnamese with the weapons of war, it is hard to believe that they are being sincere.

How can the Administration reason that it is wrong to trade with North Vietnam, but proper to trade with the Soviet Union which is the chief supplier of the North Vietnamese military machine? Are we not, in either case, aiding the enemy?

There are other serious questions which we believe must be answered before any action is taken on the Administration's proposals. If the goal of such trade is to liberalize the Communist regimes of Eastern Europe, what evidence is there that the East-West trade up to this point has done so?

Is it not true that after many years of American trade and aid that Yugoslavia is closer to the Soviet Union than before such trade and aid began? Is it not true that there is less freedom in Poland today than in 1956 at the time we began

aiding that country after its revolt against the authoritarian nature of its government?

It is essential that we not embark upon a new policy in the area of East-West trade without carefully considering the questions posed here. It would be a perilous step for our country to do so if the answers to such questions are not completely satisfactory.

STATEMENT OF HON. GLENARD P. LIPSCOMB, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF CALIFORNIA

Madam Chairman and Members of the Subcommittee, I appreciate the opportunity to present a statement to the Subcommittee on Europe in connection with its hearings on East-West trade. Regrettably, because of a longstanding commitment for me to be home in my District in California today, I am unable to appear personally at the hearings.

I have over the course of a number of years followed the subject of East-West trade, particularly with regard to matters relating to our program of controls on exports and the effectiveness of such controls. It was my privilege to serve on the House Select Committee on Export Control in the 87th Congress, during 1961 and 1962.

This is a most important subject and I want to commend the Subcommittee for conducting these hearings at this time. The subject involves broad and far-reaching considerations which as the Subcommittee knows pertains to various areas of interest and jurisdiction here in the Congress, in the Executive Branch, and in the economy generally. It touches on such fields as foreign affairs, commerce, finance, industry, and others. The information and comment generated by the Subcommittee's hearings should be a helpful contribution to our overall knowledge and understanding of the problems involved.

I want to say to the Subcommittee that I am deeply concerned about developments in the field of export control. Policies being adopted by the Administration in carrying out the Export Control Act have become progressively weaker and increasingly more advanced equipment, technologies and supplies are flowing to the USSR and other Eastern European Communist nations. The result is that we are contributing unduly toward building up the economic and military strength and potential of such Communist nations.

This is being done without our receiving adequate quid pro quo from the Communist nations, for example, in their good will and cooperation toward working for peace and harmony in the world.

To the contrary, from such actions as their increased support of North Vietnamese aggression, their successful and continuing attempts to foment strife and disruption in the Middle East, their increased deployment of advanced strategic weapons systems, their increasingly more ominous capabilities to use weapons of mass destruction such as the recently announced Soviet orbital bomb, their cynical disregard for or outright violation of agreements and treaties, it is clear that the USSR continues to push toward its goal of embracing all people under the sterile and pernicious controls of Communism.

If the Soviets can acquire from the West machines, equipment, and technologies to build up their industry and economy, allowing them to continue to emphasize military and space efforts, from their point of view it is all to the good. They in fact make no concessions but use the West as a shopping place for selective buying to fill the needs that are judged important by the Kremlin to their overall national goals.

I am concerned over the eroding of our export controls which has occurred and the efforts to grant financial assistance in the form of loans and/or credits to make possible trade which will benefit the USSR and other Communist nations. I am concerned over the need for more assertiveness on the part of the United States in standing up for more effective COCOM controls, the NATO controls aimed at restricting the flow of significant goods to the Communist nations.

From time to time I have discussed various aspects of this problem with the House of Representatives. For the information of the Subcommittee I am attaching various of these statements and I ask that they be included in the hearing record as part of my statement today.

Included in the enclosures is my statement to the House of Representatives October 17, 1966. In those remarks I commented on the initial reports concerning the proposal to sell advanced United States automotive building equipment

for the automotive plant the Fiat Company contracted to build in the USSR and also the announcement that such trade was to be financed through the Export-Import Bank. The statement also reviews a number of export licenses that were granted which are highly significant to the economy of the USSR and other Eastern European Communist nations. It includes, incidentally, detailed information relating to large scale sales of fertilizer producing data and equipment to the Soviets. As undoubtedly is known to the Subcommittee, fertilizer is one of the important commodities, in addition to a wide range of aircraft, anti-aircraft rockets, and other weaponry, which the Soviet Union and other Communist nations are supplying to Hanoi. It is known that the North Vietnamese badly need fertilizers to produce food and support Hanoi's aggression against South Vietnam.

The next statement attached is dated January 17, 1967. It comments on the Administration commitment to increasing trade with Communist countries and the action taken by the Commerce Department in removing hundreds of items from the list of items that require validated licenses to export to the USSR and other Eastern European countries. As a reflection as to what good is being achieved from trade controls relaxations, you will note various quotes of Communist leaders issued during the same time this weakened export control policy was promulgated telling of how the Communist nations fully support North Vietnam's campaign to impose Communism over all of Vietnam. The remarks also contain information relating to the fact that important U.S. Intelligence Agencies were not consulted in connection with this export control revision.

On May 4, 1967 I discussed with the House in detail the proposal that the U.S. help equip and finance the Soviet Fiat automobile factory, and a copy of that statement is also attached for inclusion in the hearing record as part of my statement.

It contains information and comment based on intelligence data and expert opinion which refute claims that Soviet planners wish to increase car manufacturing to make them available to the average citizen, or that automobile production will cause any significant diversion of resources away from military and space endeavors in the USSR.

As for the significance of the Soviet automotive capability to their military and economic strength, as I said to the House in the May 4 statement: "The products of existing Soviet automotive factories can be found in trouble spots throughout the world and notably in the war zone of southeast Asia. Trucks and other automotive products are among the significant war goods supplied to Hanoi by the Soviets and the Eastern Europeans. Such vehicles help to convey and transport Communist forces, ammunition, weapons, and other war goods in Southeast Asia." This assessment still stands, though of course specific reference could also be made to the Middle East because the Soviets have sent many vehicles among other things, to that area in an effort to advance Soviet interests.

The next statement on the subject is dated August 8, 1967. This pertains to the exporting to the USSR and other Eastern European Communist nations of instruments and equipment to conduct scientific research. Included in the August 8 statement is the text of an inter-Commerce Departmental memorandum which advises that the President's scientific adviser is concerned about delays in licensing of research instruments for scientific laboratories in Eastern Europe. The memorandum urges that applications for such export licenses be brought to the attention of the head of the Office of Export Control "to keep the difficult cases moving steadily forward." Such tactics make a complete sham of the export license procedures and policies, weak as they are already, because licenses should be granted on the basis of objective evaluation, not on the basis of pressure from the White House.

Another statement, dated August 28, 1967, discusses a further development in the Fiat plant proposal, concerning action by the Department of Commerce in clearing reexportation of American technical data in Italy to the Soviet Union for use in manufacturing parts for Fiat automobiles. There is also attached a copy of my remarks dated October 24, 1967, also on the Soviet-Fiat deal. In it I commented on Secretary of Defense McNamara's misleading inference contained in an interview printed in LIFE Magazine to the effect that the Soviet Union has no automobile industry and repeating the already discredited argument that if we assist the Soviets in building the Soviet-Fiat plant their resources will be diverted away from their space military programs.

The last statement attached is the text of my speech March 8, 1967 at an American Management Association briefing on East-West trade, entitled "Possible Dangers to our National Security in East-West Trade." It offers a review

generally on some of the more important considerations in connection with evaluating possible moves in the area of trade with the USSR and other Communist nations.

I believe that on the basis of the information available we must pursue a policy of extreme care and caution when considering trade with the USSR and other Communist nations. The pattern of Soviet actions and indicators of what they wish to achieve through trade with the West are all too clear. Their basic aims and their capacity for deceitful and ruthless pursuit of their well-known Communist goals have not changed.

I would also like to bring to the attention of the Committee a recent development in the area of export control which could have a potentially significant impact on our monetary system and Soviet capabilities. I know that the Subcommittee, as outlined in the announcement by Chairman Kelly concerning the December 7th hearings, is interested in matters relating to preserving the soundness of the dollar.

The recent frenzied gold buying following devaluation of the British pound sterling points dramatically to the importance of gold as a monetary commodity.

Gold has long been important for monetary reasons and very likely will continue for a long time to come. Gold is valuable as an international legal tender, and takes on increased importance during periods of emergency and stress. Gold reserves are as valuable as raw materials and goods because under the most trying circumstances raw materials and goods can be secured with gold.

The USSR treats statistics of its gold holdings, gold mining, and the use of gold as highest State secrets. As a result we at best have just estimates as to the status of the gold situation in the USSR. We do know that some gold was sold by the Soviets on the World Market in 1963 through 1965 to pay for grain purchases.

We also know that the Soviet Union has placed a top priority on increasing its gold output.

Because of the significance of gold to the economic, military, and political potential of any nation such as the USSR, it was surprising to learn that the Department of Commerce several months ago issued licenses authorizing shipment to the Soviet Union of construction machinery and parts valued at \$1,225,000 to be used for mining gold. The equipment has been shipped to a location near the city of Magadan in the Soviet Far East for use in placer type gold mining operations. The construction machinery consists of 10 huge track-laying tractors, bulldozer blades, rippers and parts. The construction machinery had been shown at an international mining equipment exhibition in Moscow this summer and was sold right after the exhibition.

Top-quality machinery of this type, which can withstand the rigors of cold weather and the stress of being used for placer type gold mining operations, obviously can make significant contributions to the Soviet economy.

A transaction of this nature is of even greater importance if it is the forerunner to the issuance of additional licenses for such equipment to be sent to the Soviet Union.

Given the significance of gold on the international monetary scene, its meaning to the economic, military and political strength of any nation, the fact that we have no reliable information as to Soviet gold holdings and that we know that the USSR has placed great priority on mining gold, I believe there is serious question to allowing this kind of equipment to go to the USSR.

Because of my deep and continuing concern about the East-West trade picture and developments in the area of export control, I have introduced in the House a resolution to create a Select Committee on Export Control along the lines of the Select Committee that existed in the 87th Congress. Such a committee, created for this express purpose, I believe could be very helpful toward looking into and maintaining a continuing evaluation of this entire problem. I have also joined as a co-sponsor with a large number of Members of the House of a resolution to create a Select Committee on East-West Trade. The areas in which the Select Committee on East-West Trade would be charged with looking into would be somewhat broader than the Select Committee on Export Control which I introduced earlier. Whichever approach might be selected, I certainly hope that it is possible to create a select committee for the purpose of giving full, continuing attention to developments in this problem area which is so vital to our national security and welfare.

Thank you.

STATEMENT OF HON. DONALD E. "BUZ" LUKENS, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF OHIO

Madam Chairman: It was gratifying to me to find in the President's State of the Union Address *no* reference to proposals for expanding East-West trade under the guise of "building bridges for peace" to the Communist nations of Europe.

While I doubt whether the Johnson Administration has abandoned its determination in the area of "bridge-building," I believe it was extremely wise in not stressing the matter at this particular time.

To me, it is incredible at this time to propose expanded trade relations with a sworn enemy who desperately needs every kind of goods the United States can supply. It is even more incredible to hear some proponents of this idea suggesting that we offer concessions in the form of long-term credits and "most favored nation status" to facilitate the movement of such goods at the least possible trouble to the Communist nations.

Upon close inspection I can find nothing to justify an early expansion of East-West trade but a thoroughly unrealistic and naive hope on the part of the Administration that such a program would facilitate the development of an accommodation with International Communism.

The great hope of those who propose "bridge-building" and the expansion (at our expense, of course) of East-West trade can be described with one word—"detente." They seem to believe the whole idea of rapprochement with the Communist nations must begin with a benevolent and generous attitude on the part of the United States. Nothing is required of the communists but acquiescence with our plans.

In other words, what is proposed is a program which may, in some far-distant time, facilitate normal relations with our communist enemies but which, in the immediate future, will merely facilitate their ability to supply the materials of war for their comrades in North Vietnam.

The game proposed here, in the discredited name of "detente," is a dangerous one involving the future security of the entire free world. It actually rests on the childish belief that we can shame a cynical and determined enemy into foregoing its aim of world domination for a "sweetness and light" relationship with the United States.

A joint statement by Senate Minority Leader Everett Dirksen and House Minority Leader Gerald Ford recently described the reason why Republicans in Congress intend to hold the line against "bridge-building" to Communist nations. They put it this way:

"It is neither sensible nor safe to strengthen in the slightest degree the hand of an enemy which is at this moment striking down young Americans in Vietnam—and in every corner of the globe conspiring actively for our destruction as a people.

"Where and when in the Senate and House we have taken this stand, we have done so for this reason and none other. If, in the months to come, we should be given good and convincing reason to expect otherwise of the Communists—Red and Yellow—we shall be pleased indeed to reassess our own thinking in this regard."

Needless to say, since that statement was made in December 1967, almost every international development has strengthened the fact that the Communists—Soviet and Chinese alike—have no interest in peace on anything but their own terms. Just recently, the Viet Cong assault on the U.S. Embassy in Saigon and the capture of the American ship "Pueblo" and her 83-man crew by North Korean Communists have hardened and reinforced the idea that the Communists, far from mellowing, are pushing up their time table of harassment and aggression. The new Soviet fleet in the Mediterranean, the huge shipment of arms and munitions to the Arab nations, the presence of 2,500 Russian technicians in Egypt and Syria, these are the kind of bridges the Communists are building. Their bridges are "bridges to aggression" and they make no bones about it.

The East-West trade "bridge" under discussion here—far from promoting eventual peace—would work for the continued slavery of the captive peoples of Eastern Europe. For the program here proposed would benefit the Communist regimes which hold these people in submission. It would work a great benefit for the Communist rulers and against the ruled for the government and against the people.

What isn't generally understood in this country is that trade, under Communism, is a political tool which is wielded by the State. It bears little or no

resemblance to the free enterprise system in the U.S., yet the proponents of East-West trade continually talk as though such exchanges could be judged by western standards.

We often hear the argument that an expanded East-West trade program could be carried out to mutual advantage without sending the Communists anything of strategic value. Yet our experience along these lines indicates that hundreds of American exports to Communist countries lend themselves directly to use by the enemies of American fighting men in Vietnam. And, even our so-called non-strategic goods can benefit the Communists in their war-making endeavors by enabling them to divert facilities and manpower to military production.

In conclusion, let me say that we are today confronted by a determined, ruthless and strong enemy—an enemy which is extending his military might on a worldwide basis—an enemy which is engaging us in a full-scale war in Vietnam and harassing us in North Korea—an enemy which deserves to be treated as an enemy.

Under these circumstances, the whole idea of "building bridges for peace" is downright ridiculous. And I strongly oppose any effort to expand American trade with Communist nations and thereby strengthen this enemy's ability to wage war. A noted author, Mr. Eugene Lyons of "Reader's Digest," had described the American "bridge-building" program as "Operation Suicide." I agree with this description.

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STATEMENT OF HON. JOHN T. MYERS, A REPRESENTATIVE IN CONGRESS FROM THE  
STATE OF INDIANA

Madam Chairman, I do appreciate the opportunity to present these brief observations on the subject of East-West trade and the impact of such trade on the United States and, in turn, on the conflict in Vietnam.

May I say from the outset that I favor new restrictions on U.S. trade with Russia and its satellites and any nation assisting the Communist enemy in Vietnam.

The present Administration's efforts to build bridges between East and West apparently ignore a very fundamental lesson we should have learned 26 years ago when the Japanese attacked Pearl Harbor.

That attack shattered the dreams of another Administration which felt that shipping scrap iron to our potential enemy would open the door to peace. That dream is just as dangerous today as it was then.

After the attack on Pearl Harbor, we did halt all trade with our enemy. But today we find the Administration pushing for new agreements with Russia and its satellites.

It should make no difference to the U.S. whether the goods to be traded are on the much expanded list of so-called non-strategic items or hardware such as guns and ammunition.

Every item we provide the Communist world should be considered strategic in the sense that such trade permits the Communists to divert their industrial machinery to the production of weapons bound for Vietnam while we help them meet the demand for consumer goods at home.

About 80 percent of the weapons and strategic materials of war have been supplied to the Communists in Vietnam, not by the Red Chinese but by the Soviet Union and her East European satellites.

We also should take a hard look at our trade relations with such nations as Great Britain which continues to deal with North Vietnam and permit ships to stream into the port of Haiphong on a regular basis.

I urge the Subcommittee to re-examine U.S. foreign policy objectives with an eye toward halting all trade with those nations dealing with the North Vietnamese government so long as Americans and our allies are fighting and dying in Southeast Asia.

As you are aware I am co-sponsor of legislation which would establish a committee to study the impact of East-West trade and assistance to nations which support aggression, directly or indirectly. May I compliment the members of this subcommittee for moving ahead on your own to examine all the ramifications of East-West trade. This is an example of Congressional initiative which I hope to see more of in the future and which should not go unnoticed by advocates of a stronger legislative branch.

STATEMENT OF HON ED REINECKE, A REPRESENTATIVE IN CONGRESS FROM THE  
STATE OF CALIFORNIA

If we are to engage in a fruitful discussion on the potential benefits of East-West trade, we have to begin, it seems to me, by asking the following question: Why do the countries of the Communist Bloc engage in commodity trade with the capitalist countries of the West? We know from past decades of experience, as well as from their official statements, that the leaders of the communist countries are motivated by a strong ideological bias against trading with capitalist countries on a long-term basis. They have been conditioned by the dogmas of Marxism-Leninism to believe that the capitalist countries are hopelessly dependent for their survival on an expanding market. It follows, according to the self-serving political dogma, that if the communist countries would agree to buy less from the West, they could by such action help to shrink the market for "world capitalism". When that happens, presumably there would "inevitably" follow a severe decline in production and a sharp rise in unemployment. In Stalin's last, if least inspired, essay, published a few months before his death, he gave us the benefit of his prophetic powers in the realm of world trade as follows:

The sphere of exploitation of the world's resources by the major capitalist countries will not expand, but contract. Their opportunities for sale in the world market will deteriorate, and their industries will be operating more and more below capacity. That, in fact, is what is meant by the deepening of the general crisis of the world capitalist system as a result of the disintegration of the world market.<sup>1</sup>

We are all aware of course that the men who rule Russia today know better. They are not quite as talented in the art of self-delusion as Stalin was. They know, too, that he was not really a very good economic prophet either. Nevertheless, they remain fundamentally the political creatures and the dogmatic disciples of Stalin in the sense that they continue to be guided in their action by an irrational hostility to the free nations of the West, by a pathological urge to weaken their economic foundations by any means, fair or foul. As long as they persist in this effort, the present Soviet leaders would not lift a finger, if it were entirely up to them, to help a single non-communist country expand its commodity sales in the world market. They still consider it to be their "sacred" mission to "destroy capitalism", to "liberate" the self-governing nations in the world of their freedom, their independence, their economic and social well-being.

The fact that the leaders of Moscow and the other capitals behind the Iron Curtain are today importing a wide variety of modern technical products from the West should not mislead us. This fact has to be viewed as evidence of some kind, but it cannot most emphatically be taken as an indication of their readiness to "live and let live" in peace with the democratic nations of the world. The fact that the communist-ruled countries are actively interested in trading with the West should be read as eloquent evidence of something quite different. It should be read as evidence of the chronic inability of the Communist type economy to keep up with technological progress in the civilian branches of production on the basis of their own research and development. So much of the choice resources, managerial skill, and research talent is devoured by the war-making industries of Russia and its satellites as to leave the civilian branches of production effectively drained of new production ideas, and helpless in the face of world competitions. The machines designed by the sub-standard, under-staffed civilian research institutes of the Communist countries, according to the published reports of their own economists, lead to a systematic waste of capital and to distressingly low levels of average worker productivity. This applies all across the board—to mining machinery, road-building equipment, and machine-tools and presses used in the manufacture of automobiles, trucks, and tractors.

To cite one example: In the Soviet coal industry today, according to the official press, average labor productivity (i.e. total annual tonnage divided by the number of workers) is equal to 15 percent of per worker output in the coal-mining industry of this country. Interestingly enough, in 1960 Soviet labor productivity in coal-mining was equal to 25 percent of our level in the same year. In relative terms, the general drift, in fact, is clearly backwards, as far as Soviet civilian technology is concerned.

<sup>1</sup> J. Stalin, "Economic Problems of Socialism in the U.S.S.R.," New York, 1952, p. 27.

It is not surprising, therefore, that the purchasing agents of the communist countries are busy buying advanced models of production machinery in the markets of the West. The highly publicized \$300 million deal with the Fiat Company of Italy, concluded in May 1966, to build a modern automobile plant in Russia, and thereby help Soviet technology in this field wipe out a technological lag of some two decades is not unique in this respect. While it is relatively large, it is only one of several dozen of "turn-key" plants that are at present being dragged behind the Iron Curtain only to slam that curtain down again, until a new list of strategic equipment is drawn up for procurement in the West.

Within the past 2-3 years alone, the communist countries have procured in the West a wide variety of advanced technology in packaged form, such as: power plants, tube mills, fire cord plants, synthetic fiber plants, industrial chemical plants, cargo ships, tankers, fishing vessels, steel mills, pulp mills, computers, plants for making acetic acid, phosphoric acid, synthetic urea, polymers, and other modern industrial materials.

It is not too difficult to see the long-term economic self-interest of the communist countries behind these carefully selected purchases of packaged sophisticated production equipment. What is far less clear to the average citizen of this country is what particular long-term interest of the Western business community is served by these transactions. These purchases of "turn-key" plants must be accepted for what they are, namely a well-organized campaign of selective procurement, aimed at the convenient transfer of technical capability from the West to East, at the lowest possible cost in outlay in research and development resources on civilian branches of production on the part of the communist countries. The net effect of this operation, it seems to me, is to place the West at a strategic disadvantage. While the communist countries are building furiously ever newer and more deadly weapon systems, the West is in effect supporting this effort, rather obligingly, by helping to improve the technology and modernize the productive capacity of the communist countries in the kind of civilian equipment that will raise productivity and help to maintain public morale in these countries at an adequate level, regardless of how much talent the Communist governments waste on the design, production, and testing of military end products.

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STATEMENT OF HON. M. GENE SNYDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Madam Chairman, I wish to thank the members of the subcommittee for the opportunity to present this statement today in an effort to reflect what I believe to be not only my own views, but the views of the majority of the people in the Congressional District that I represent.

At the outset, let me say that it appears to me that the idea of expanding East-West trade with the Soviet Union and its satellites at a moment when the Soviet Union is supplying those fighting our troops in Vietnam should be repugnant to the American people. Frankly I am convinced that it is. I recognize the fact that recent action of the House in regard to the Gross amendment to the Foreign Aid bill indicates that my thinking is currently in the Minority among the Members of the House. If I recall correctly, the House reversed its position by a record vote, as a result of the conference with the other body, on an amendment to the Foreign Aid bill which involved the basic same principle as I speak about here.

We all know that Soviet spokesmen have promised publicly to double this year the flow of rifles, machine guns, mortars, artillery, and ammunition, the MIG-21 fighters, and the ground-to-air missiles being supplied to the Viet Cong and the North Vietnamese.

It would seem to have a most destructive effect on the world attitude toward the United States, if, at this moment—today while Soviet troops are no doubt still in Cuba off our coast and while they are aiding the North Vietnamese—we should expand our trade with the Soviet Union or its satellites.

True, we should act in our own national best interest in all matters, but I have difficulty, and I believe the American people generally have difficulty, in understanding how we can be acting in our own national best interest by bolstering the economies of those who are supporting the enemy in North Vietnam today—those who are killing American boys, and at the same time costing the American taxpayer a fortune in that conflict. If this de facto war was in fact a declared

war, such trade on the part of American enterprise would be punishable under the law as giving aid and comfort to the enemy.

There is a strong drive, not only by the Administration, but by those who would make a profit at the expense of our fighting men, to increase our shipment of goods to our active enemies. Our colleague from California (Mr. Lipscomb) back early in the year, informed the House that the Security Community was not even consulted before the official bans against such shipments were relaxed.

It is true that the moral justifications of the Vietnam war have been, of late, the subject of extensive public controversy. Everyone from the bearded Vietnicks to peace-loving college professors has seen fit to decry the immorality of American involvement in Vietnam. Members of the House and the other body have even gotten in on the act.

The public has been subjected to sit-ins, lie-ins, draft card burnings, flag burnings, Pentagon demonstrations, and every imaginable kind of protest against Vietnam policy and the "immoral war."

But I say to you here today that *our moral responsibility* is to those American sons, fathers and husbands whose blood is being spilled in the jungles of a small country thousands of miles from their homeland. Whether we believe the war to be right or whether we believe it to be wrong, the truth is that American boys are there fighting—the majority of them are there under compulsion—and they deserve *our total support*. The support that they deserve is not and must not be *limited* to the supplying of these American boys with the arsenals of war, but it also must include the best use of the great economic power of this country in its dealings with other nations.

The Government of this country has committed its fighting men to this conflict, and whether the war is moral or immoral—I say to you here today—that nothing could be more immoral than the failure to totally support those who fight there. It seems patently clear to me that any increased trade with Soviet bloc countries, or as a matter of fact, the continuation of any existing trade, is not giving total support to our armed forces in Vietnam. I believe, and I believe that the majority of the American people agree, that nothing could be more immoral or near criminal than for this country to trade with the very nations who are aiding in the slaughter of America's young men.

Madam Chairman, I recently received a letter from the brother of one of America's fallen fighting men, which I feel eloquently expresses the feeling of most Americans with regard to trade with Communist bloc nations. I ask unanimous consent to include this letter as a part of my statement here today.

HON. GENE SNYDER,  
Congressman, House of Representatives,  
Washington, D.C.

DEAR SIR: It is beyond my comprehension to understand why officials in authority can advocate trade to Communist bloc nations while the blood of our youth is being spilled on foreign soil against those to whom they advocate trade. Premier Ky would not lower himself to such a fallacy.

Last week the first hurdle was successfully taken by those capitalists who would profit, monetarily, by financing a Fifty Million Dollar automobile plant within the Soviet Union. Machinery to be installed in this plant would be purchased from American manufactories. Such a plant could easily be converted to produce war materials.

It is my opinion that all those who would give aid and comfort to our arch enemies, and make no mistake about it they are our arch enemies, are traitors to the American cause. I cannot in conscience support individuals or groups that would jeopardize our freedom or heritage for the sake of a dollar.

My brother, Pfc. Victor H. Van Vactor, United States Marine Corps, gave his life fighting the communists in Vietnam. The least the United States Government can do is to support our men in Vietnam and throughout the world 100%. There is much dissent among the government officials in Washington over the war in Vietnam whether we are right or wrong. While it is an issue with some, they should not lose sight of the fact that their dissent openly, which is their God given right, is killing our men in Vietnam by prolonging the war and supplying propaganda to the enemy.

Any allied country of the United States who directly or indirectly trades with North Vietnam should be cut off of American aid immediately. The pilot who shot up, so they say, a British freighter off the coast of Vietnam, whether he was right or wrong, in my opinion should have received a medal for his action. The ship should have been sunk by our naval superiority.

The communists are out to eventually control the world whether it be by aggression or from within the borders of a nation, through elections or revolutions the end will justify the means. Once a nation is enslaved by communist suppression there is little hope for them to return as free men.

Sincerely yours,

EDWARD E. JONES.

STATEMENT OF HON. LARRY WINN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Madam Chairman, the United States is engaged in an all-out fight to stop the brutal and cruel aggression of Communism in Southeast Asia. Thousands of American fighting men have already laid down their lives in defense of freedom and thousands may still do so before the aggression is stopped. We have spared no effort to provide these fighting men with all the means necessary to pursue their vital task. But, paradoxically, we have not yet taken some of the most obvious and most important steps to diminish the enemy's aggressive power.

North Vietnam is an enemy under active attack, with its economic strategic base badly shaken and unable to support its aggressiveness. It is obvious that in such a situation our enemy is vitally dependent on strategic and non-strategic supplies from abroad if he is to continue his aggressive activities. Now, it is hardly a secret that an overwhelming share of these supplies is being furnished by and shipped on vessels flying the flags of Communist nations. Without their support in war materiel and other supplies North Vietnamese Communists would soon be forced to give up their aggression upon their neighbor to the South.

While we all seem to recognize the vital dependence of North Vietnam on its Communist friends, in our official policy we somehow seem to be unable to see the essential link between the help that we ourselves furnish to these Communist friends of North Vietnam by trading with them and the help that they continue to provide to our enemy in Southeast Asia.

It could be called merely a paradox, if it were not so appallingly far-reaching in its dire consequences, that we persist in trading with, and thereby aiding, the principal mainstays of a country with which we are locked in combat. What is even more appalling is that we hear persistent voices in favor of increasing this trade.

We are told that our trade with the Communist countries is to our benefit, in the national interest; we are exhorted to believe that increased trade with the Red East will lead to an even greater relaxation of world tensions and to a better mutual understanding which forms the base of a lasting peace. I am quite willing to agree that all these are lofty goals, that they would be acceptable excuses for maintaining or even increasing peaceful trade with the Communists were it not for the cruel reality that one part of the Communist world is today, this very minute, attacking our positions, killing and maiming our men.

The question posed by what I have just said has been customarily summarily countered by the dismissal: "What assistance can our trade with other Communist countries possibly give to North Vietnam?" I would tend to accept the words of this dismissal, but I would also put them in the form of a serious, soul-searching, honest question: What help, indeed, do we render to our enemy by trading with our friends?

It is a question which must be answered to find the correct direction of the most important aspect of our foreign policy. I am, therefore, earnestly urging this committee to support the resolution to make a thorough, in-depth study of the impact of East-West trade on the war in Vietnam, as the first, mild and minimal step toward a sensible and realistic economic policy in support of our military policy.

In present circumstances, we cannot afford not to know the precise impact of our commercial relations with the Communist world on the Vietnam conflict; and once found out, we dare not fail to take appropriate steps. When aggression has ceased, we can trade again for the sake of trading—but not until then.

Mrs. KELLY. The subcommittee will adjourn.

(Whereupon, at 11:55 a.m., the subcommittee adjourned.)

## EAST-WEST TRADE

### 2. Department of State

TUESDAY, FEBRUARY 20, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 10:15 a.m., in room 2255, Rayburn House Office Building, Hon. Edna F. Kelly (chairman of the subcommittee) presiding.

Mrs. KELLY. The subcommittee will please come to order.

We meet this morning to continue our hearings on East-West trade and related matters.

At our first hearing on January 30, we heard from several Members of Congress who have a strong interest in this subject.

Today we are very pleased to have with us witnesses from the Department of State. They are Hon. Charles E. Bohlen, Deputy Under Secretary for Political Affairs, and Hon. Anthony W. Solomon, Assistant Secretary for Economic Affairs.

Ambassador Bohlen, this is your first appearance before our subcommittee in your new role as the Deputy Under Secretary of State. I want to congratulate you on your present assignment and to express the hope that the friendly and rewarding relations which have long existed between you as the American Ambassador to the Soviet Union and then to France, and our subcommittee, will continue.

Before we begin, I should like to make a few brief observations:

This is a presidential election year and the current session of Congress will probably be shorter than usual. Consequently, the prospects of any major legislative breakthrough in the field of East-West trade are rather slim for 1968. This had led some people to question, if not the value then, at least, the timing of our hearings.

I personally feel that the issues involved in East-West trade are of such great importance that we should not delay this undertaking—even though the chance of getting any legislative action is slim this year. I believe that most of the members of our subcommittee, and of the full committee, share this feeling.

The reasons for going ahead with our hearings are rather obvious:

During the past few years, trade between Eastern Europe and the Soviet Union on the one hand, and our Western friends and allies on the other, has been increasing at the rate of nearly 20 percent per year. This year the total volume of trade between the Eastern and the Western European countries may reach the \$10 billion mark.

The United States has been an interested observer, but certainly not a full-fledged participant, in these developments. As a matter of fact, while East-West trade continued to grow—while President John-

son proclaimed the policy of peaceful "bridgebuilding"—the Congress went ahead enacting new and increasingly effective restrictions on U.S. commercial and financial dealings with the Communist world.

We are familiar with some of the reasons for these enactments. Whatever their merit, the fact remains that in the field of East-West trade and other exchanges, the United States has been completely—and perhaps permanently—outpaced by our allies. This, in turn, has tended to create some problems for us in Western Europe and other areas.

Have these developments been good or bad from the standpoint of U.S. national interests?

Is there anything we can do about them? If so, what?

We hope to ask these and many other questions of our witnesses. We plan to continue these hearings for quite some time. We have at least six major departments and agencies that we would like to hear from. After that we will begin taking testimony from private witnesses. And there, I think, we may encounter some interesting views. I have a feeling that our private business community will have something to impart to us on this subject.

Ambassador Bohlen, we will ask you to speak first. After you complete your testimony, we will hear from Secretary Solomon. The subcommittee will then present questions to both of you.

#### STATEMENT OF HON. CHARLES E. BOHLEN, DEPUTY UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS

Ambassador BOHLEN. Madam Chairman, first of all, let me thank you for the kind words you spoke with regard to my new appointment. I certainly share your hope and I am convinced that the previously pleasant, friendly, and cooperative relations which I have had the pleasure of having with your subcommittee will continue.

I trust that you will bear with me in this task of talking on East-West trade, as I have only last week returned to that subject, having been for the last 5 years preoccupied with Franco-American relations.

I would like to make a few general remarks with regard to the political rationale of trading with Eastern Europe, including the Soviet Union, and then turn it over to Assistant Secretary Solomon, who is much more familiar with all of the details of the economic aspects of this trade.

The first thing I would like to say is, the term "East-West trade" is really a misnomer because it only applies to Eastern and Western Europe and does not apply to the whole world. When we talk about East-West trade, we really mean trade with the Soviet Union and Eastern European countries, the countries that have Communist systems.

In regard to the other Communist countries of the world, such as China, North Vietnam, North Korea, and, I might add, Cuba, there is virtually a total embargo on our trade with them so these do not figure in these hearings, I would think.

In addition, when we speak of trade, we really speak of only trade in peaceful items. The strategic items, items of military value, atomic value, are all prohibited, not only by the U.S. lists, but also by the COCOM lists.

There may be a few items on the list which we would clear for trade as nonstrategic which some members of the committee might consider strategic, but these are the normal differences of opinion that arise on any question. So, in general, what I think we are talking about here is peaceful trade with the Soviet Union and Eastern Europe.

Our allies in NATO join with us in COCOM in accepting voluntarily a number of restrictions with regard to strategic items. Thus, I think the figures that Mrs. Kelly referred to really apply largely to peaceful trade and not, strictly speaking, to strategic items, though I think there may be some difference between the U.S. list and the COCOM list.

In effect, with the Soviet Union we have never—or with the countries of Eastern Europe—we have never applied any really major trade restrictions of an embargo nature. There were certain limitations put in during the Korean war.

I think one of the reasons why we attach importance to East-West trade from the political point of view is because of its effect on developments in Eastern Europe. If you will permit me a little incursion into Marxist philosophy or ideology, this relates very much to the subject in question. One of the tenets of Marxist thought was that national boundaries were artificial and did not really have any validity. Once you had a Socialist system installed in the world or in part of the world, this would tend to eliminate the importance of national boundaries. This theory was never put to the test in the early days of the Soviet regime because the Communist system, or the Socialist system, as they called it, was in force only in one country. It, in turn, was in total control of the Communist Parties of all of the world, which followed blindly the Soviet lead in every respect. It was only after World War II when the Communist system was installed—by force, really—in Eastern Europe, that the question really was put to its test.

The first sign that the theory was not valid was the breakoff in 1949 of Yugoslavia from the control of Moscow. Yugoslavia does not take any orders or dictation in regard to her policies, either domestic or foreign, from Moscow or any other external center.

In the middle fifties there were the events in Poland which you all know, and in Hungary, which reflected the same desire of these countries, which we have been in the habit of terming satellite countries, to reassert their national personalities. Rumania has perhaps gone further than any of the others, but Poland, to a certain degree, has asserted her independence, her right to act and think in Polish interests. This, I believe, is true of all countries and is a natural historical phenomenon. Far from being unnatural, nationalism and national boundaries continue to be perhaps the most important factor in the modern world. Anythink we can do, therefore, to help these countries reassert their national personality I think is in our interests. It has always been a tenet of American foreign policy to believe that a country should be independent and in complete command of its own policy, which they should be able to devise in accordance with their conception of their national interest.

We feel that trade with these countries tends to help along the process of expressing the national personality of the countries concerned.

Furthermore, the domestic situation in a country tends to respond to trade by producing more in relation to demand, by having its prices

bear some relation to costs, and to take more into account the tastes and desires of the consumer.

This tends to introduce a certain diversification into the economic life of a country and to weaken the overall control, the monolithic control of the Communist Party over all phases of national life.

Now, naturally, the question of trade with Communist countries does raise a whole series of questions, some of which are very important, some of which are less important. Perhaps the most important one at the moment is whether or not peaceful trade with these countries makes it easier for them to trade in military goods with North Vietnam.

I would say that our answer would be that it did not, that there is a sharp distinction between the production of military items and the specific needs of a given country, and that no denial of peaceful trade with any of these countries, particularly the Soviet Union, would have the slightest effect on their ability and willingness to supply military items to North Vietnam.

I also think it should be mentioned that trade is a two-way street. I understand that our trade with Eastern Europe as a whole, including the Soviet Union, is roughly balanced. You cannot shut off trade to the Eastern European countries, including the Soviet Union, without at the same time harming the American exporter and businessman who is engaged in what we would call legitimate trade.

Mrs. Kelly mentioned the fact of the great growth of Western European trade with Eastern Europe, which is indeed a fact. It is true that we are falling behind. I would agree with that statement and I believe we would on the whole favor the removal of the existing restrictions that still operate on peaceful trade with the Soviet Union and with some other Eastern European countries.

I remember before the war, when the recognition of the Soviet Union in 1933 came about, one of the first things we did was a negotiation of a trade agreement with them.

The only quid pro quo we could get then was a Soviet commitment to buy specific quantities of goods in the United States because you simply did not have the commercial element in the picture which would lead to a balanced trade.

I personally think that trade is a normal thing, regardless of the organization of a country's society. I must say I am in very full agreement with the statement which was made by the three Secretaries, of State, Defense, and Commerce. I think about a year and a half ago, that "Your government regards commerce in peaceful goods with the countries of Eastern Europe, including the Soviet Union, as completely compatible with our national interests."

Now, I think with your permission I will turn to Mr. Solomon to deal with the economic and technical aspects of this trade.

Mrs. KELLY. Mr. Ambassador, will you be able to stay here through this morning?

Ambassador BOHLEN. Yes; I will be here.

Mrs. KELLY. We would hope to question you on various policy questions and reserve questions relating to the Mutual Defense Assistance Control Act and the Mutual Security Act for Mr. Solomon.

Ambassador BOHLEN. He is much more familiar with that than I am.

Mrs. KELLY. Mr. Solomon, you have a rather long statement here, 15 or 20 pages. Could you summarize it for us?

**STATEMENT OF HON. ANTHONY W. SOLOMON, ASSISTANT  
SECRETARY OF STATE FOR ECONOMIC AFFAIRS**

Mr. SOLOMON. I could if you wish.

Mrs. KELLY. I think that would be preferable because there are many questions the members of the committee would like to address themselves to.

We will at this point put your entire statement in the record.

(The statement follows:)

**STATEMENT OF HON. ANTHONY M. SOLOMON, ASSISTANT SECRETARY OF STATE FOR  
ECONOMIC AFFAIRS**

I understand you would like me to summarize briefly at the outset the responsibilities of the Department of State relating to East-West trade as they are set forth in existing legislation, how we are carrying out these responsibilities and what problems we have encountered. After I have provided you with this summary, I shall be glad to answer your questions on these matters or on more general aspects of East-West trade.

In terms of the State Department's operating responsibilities, the two most significant pieces of legislation are the Mutual Defense Assistance Control Act of 1951, or the Battle Act, and the Mutual Security Act of 1954, as amended (22 U.S.C. 1934).

**THE BATTLE ACT**

The Battle Act represents an authoritative statement of United States policy on the control of strategic trade with Communist countries. The language of Section 101 of the Act makes it clear that our objective is an embargo to Communist countries, not only by the United States but by other cooperating countries, on the shipment of arms, atomic energy materials, and items of primary strategic significance used in the production of arms.

The Battle Act has served as the underpinning for our negotiation with other countries of strategic controls by them in parallel with U.S. strategic controls. It provides the basis for U.S. participation in the cooperative multilateral strategic embargo program that is maintained through the 15-nation Coordinating Committee, or COCOM, although the formation of that Committee in 1950 antedated the Battle Act.

The Act also includes a sanction—the termination of all military, economic, or financial assistance to any nation that fails to embargo designated strategic commodities to the Soviet Union and the other Communist countries covered by the wording of the Act. Because the sanction is so severe, the Act itself in Section 103(b) provides carefully defined authority to the President to make exceptions. This authority permits the President, under certain circumstances, to direct the continuation of aid to a country even though that country "knowingly permits" a shipment of a listed commodity to take place. This Presidential authority does not extend to shipments of arms or atomic energy materials.

Presidential determinations have been made from time to time pursuant to the discretionary authority provided in the Act, and have in each case been reported to the designated Congressional committees including the Committee on Foreign Affairs. Aid has not been terminated to any country under the Battle Act, although the Act has served as a bar to the initiation of aid programs in certain cases until it was possible to determine that the requirements of the Act were being met. We believe, as a general matter, that the willingness of the President to exercise discretion in administering the Act has strengthened rather than weakened the hand of the Department of State in negotiating controls with other nations.

I should make it clear that the Secretary of State would have responsibility for negotiations on strategic control policy whether or not there were a Battle Act, but there are particular responsibilities set forth in the Act. Briefly, the duties of the Battle Act Administrator include the following:

1. The listing of commodities which in the Administrator's opinion after consultation with other agencies require inclusion on the Battle Act strategic lists;

2. Negotiating acceptance of an embargo policy for Battle Act items by countries which are, or which are expected to become, aid recipients within the meaning of the Act;

3. Making recommendations to the President with respect to the continuation of aid to countries making shipments of those commodities for which such discretion is permitted to the President;

4. Reporting to designated Congressional committees on all determinations made under the Act and on the status of trade with Communist areas of countries for which determinations have been made;

5. Making available technical advice and assistance on export control procedures to other nations desiring such assistance;

6. Coordinating those activities of the various United States departments and agencies concerned with security controls over exports from other countries.

The Secretary of State is designated by the President as the Battle Act Administrator. The Assistant Secretary of State for Economic Affairs performs the duties of the Administrator by delegation and serves as chairman of the Economic Defense Advisory Committee, which has representation from the Department of Defense, Commerce and Treasury, the Atomic Energy Commission, the Central Intelligence Agency, and such other departments or agencies as may have an interest in particular questions. This Economic Defense Advisory Committee has a subsidiary Executive Committee which considers questions not requiring resolution in the Advisory Committee. It also has two active working groups: one dealing with changes in, or interpretations of, the Battle Act strategic list; and the second dealing with enforcement and transshipment questions having an international aspect. The agency representation on these working groups is drawn from the EDAC agencies which have the most active interest in the matters coming before the working groups.

#### MUTUAL SECURITY ACT

The second legislative provision having special importance from the standpoint of this Department's operating responsibilities is Section 414 of the Mutual Security Act of 1954. That Section authorizes the President to control, "in furtherance of world peace and the security and foreign policy of the United States", the export and import of arms, ammunition, and implements of war, other than by a United States Government agency. The President has delegated his functions under this Act to the Secretary of State, including the authority to designate those articles considered to be arms, including technical data related thereto. Those designations require the concurrence of the Secretary of Defense. The Office of Munitions Control of the Department of State also consults closely with the Department of Defense in its licensing actions.

From the standpoint of East-West trade, the operations under the Mutual Security Act have the effect of assuring an embargo on arms exports to Communist countries. We have also prohibited imports of arms from those countries. This control complements the export control responsibility of the Atomic Energy Commission for trade in atomic energy materials, and of the Department of Commerce for exports of most other commodities.

These three export control regimes—of the State Department Office of Munitions Control, of the Atomic Energy Commission, and of the Department of Commerce—assure the prevention of exports from the United States of strategic goods covered by the international strategic trade controls required by the Battle Act.

I would like to point out that, while the responsibility for administering the Export Control Act is delegated by the President to the Secretary of Commerce, the Department of State performs an important advisory function under that Act. Section 2 of that Act sets forth the policy of Congress that export controls should be used to the extent necessary to protect the domestic economy, to exercise vigilance from the standpoint of the significance of exports to the national security, and "to further the foreign policy of the United States and to aid in fulfilling its international responsibilities."

Our advice on the latter aspect of Export Control policy is given through the interdepartmental Advisory Committee on Export Policy which includes other executive branch agencies which the Department of Commerce normally consults.

#### TRADE WITH CUBA AND NORTH VIET-NAM

Section 620(f) of the Foreign Assistance Act of 1961, as amended, prohibits any assistance under that Act to Communist countries, unless the President

makes certain findings. The Presidential discretion to extend aid subject to such findings has not been exercised. Accordingly, there are no aid programs for any Communist country, including Yugoslavia.

In addition to prohibiting aid directly to Communist countries, other provisions of the Act prohibit aid to any countries, Communist or non-Communist, that trade with North Viet-Nam or Cuba.

Section 620(a) (3) of the Foreign Assistance Act prohibits assistance under that Act to any country that fails to take appropriate steps to prevent ships or aircraft under its registry from transporting anything to or from Cuba.

Section 620(n) of the Foreign Assistance Act prohibits assistance under that Act or any other Act and prohibits sales under Public Law 480 to any country which provides or transport anything to or from North Viet-Nam.

Sections 107(a) and 116 of the Appropriation Act prohibit assistance under the Foreign Assistance Act to any country which provides or carries to Cuba or North Viet-Nam any strategic goods including petroleum products.

Finally, Section 107(b) of the Appropriation Act prohibits economic assistance under the Foreign Assistance Act to any country which "sells, furnishes, or permits any ships under its registry to carry items of economic assistance" to Cuba or North Viet-Nam.

Taken together, these provisions have the effect of prohibiting any programs of assistance under the Foreign Assistance Act to any country which exports any goods to North Viet-Nam or Cuba or which has ships or aircraft under its registry engaged in trade with either of those countries. With respect to North Viet-Nam, these provisions extend the ban to cover any sales programs under PL 480 to any countries engaged in trade or shipping with North Viet-Nam.

Section 103 of the Food for Peace Act of 1966 (80 Stat. 1527), extends the ban to cover nations having trade and shipping with Cuba as well as with North Viet-Nam. However, this Section includes a provision permitting the President to determine that sales agreements are permissible in the national interest if the trade with Cuba involves nothing beyond "medical supplies, non-strategic raw materials for agriculture, and non-strategic agricultural or food commodities." This waiver authority does not apply in the case of trade with North Viet-Nam.

Needless to say, the AID program has been carefully administered in accordance with these provisions. There are no programs involving Foreign Assistance Act or Food for Peace funds for any governments trading with North Viet-Nam. There are no aid programs for any governments trading with Cuba or having ships in trade with Cuba. There has been a Presidential determination resulting in an agricultural sales program for Morocco, the determination being taken in the light of sales by Morocco to Cuba of non-strategic raw materials for agriculture.

These provisions, moreover, have been the legislative basis for extended and intensive diplomatic efforts to persuade other free world countries to remove their ships from the Cuban and North Viet-Nam trade. We have had a large measure of success in these negotiations. In the case of North Viet-Nam, the shipping has been reduced to a hard core of vessels operating only in East Asian waters, registered in Hong Kong, but under effective Chinese Communist control, plus an occasional voyage by a vessel under the registry of Cyprus, Malta, or Italy. Arrivals in North Viet-Nam averaged only six per month in 1967.

In the case of Cuba, the reduction has not been so dramatic, but it has been substantial. In 1964 there were 394 calls by free-world ships at Cuban ports; in 1965 there were only 290 such calls; in 1966, 224; and there were only 217 during 1967.

Before leaving the Food for Peace Act provision, I would like to point out for the Subcommittee that in practice the impact of the Section 103(d) (3) ban on trade with Cuba falls on Yugoslavia. Yugoslavia is the only country otherwise eligible for PL 480 purchases that is precluded. It has no trade or shipping whatever with North Viet-Nam but its ships call at Cuba and carry commercial cargo not subject to Presidential waiver.

I should note the inconsistency in the legislative treatment of third country trade with North Viet-Nam. The Foreign Assistance Act bans aid, PL 480 sales, and other assistance to any country that trades with or transports goods to or from North Viet-Nam "so long as the regime in North Viet-Nam gives support to hostilities in South Viet-Nam." The Export-Import Bank bill in both the Senate and House versions now under consideration has a similar thrust. That is, it bans Export-Import Bank transactions with countries whose governments trade or aid nations that are "in armed conflict" with the United States. But the Food for Peace Act in Section 103(d) (3) bans sales to third countries trading with

North Viet-Nam so long as North Viet-Nam is "governed by a Communist regime."

#### TRADE EXPANSION ACT OF 1962

This Act is not administered by the Department of State but I would like to mention provisions which are of special interest to us. Section 231(a) of the Trade Expansion Act of 1962 (19 U.S.C., 1861(a)) directed the President, as soon as practicable, to suspend, withdraw, or prevent the application of concessions, including reductions or maintenance of duties proclaimed in carrying out any trade agreement with respect to products of any country or area dominated or controlled by communism. The effect of this directive is to prevent the extension of non-discriminatory tariff treatment to Communist countries. The only exception to this directive is through Section 231(b) of the Trade Expansion Act, which authorized the President to continue such non-discriminatory tariff treatment for any Communist countries which were receiving trade concessions as of December 16, 1963. The only Communist countries receiving such concessions then were Poland and Yugoslavia. Pursuant to Presidential determination, most-favored nation trade treatment has been continued for those two countries.

As you know, this Administration proposed to the 89th Congress the enactment of an East-West Trade Relations Act that would authorize the President to negotiate commercial agreements with individual Eastern European nations when he believed this to be in the national interest. These agreements would extend non-discriminatory tariff treatment in return for equivalent benefits to the United States. In his Economic Report this year the President again urged the Congress to provide the necessary authority to expand trade with the countries of Eastern Europe and the Soviet Union. We recognize, of course, that such legislation raises serious issues at this time in the view of some members of Congress.

#### EXPORT-IMPORT BANK ACT

I do not believe it is appropriate for me to discuss in detail the Export-Import Bank Act, which is still under consideration by the Congress, since you will be calling witnesses from the Export-Import Bank itself. I would simply point out that if this Act is extended in such form as to preclude participation by the Bank in financing exports to Eastern Europe, it will be a serious limitation on the President's policy of encouraging non-strategic trade with those countries on a normal commercial basis. It will virtually rule out any possibility of increasing the volume of our exports to that area at a time when we are hopeful of getting the greatest possible assistance to our balance of payments problem from enlarging our favorable merchandise trade balance.

#### JOHNSON ACT

This Act is administered by another agency—the Department of Justice—but in general the Johnson Act (18 U.S.C., Sec. 953) prohibits certain financial transactions by private persons in the United States involving foreign governments which are in default in the payment of their obligations to the United States. The prohibited transactions include the making of "loans" to, and the purchase or sale of "bonds, securities, or other obligations" of, a foreign government which is within the statutory category.

The U.S.S.R. and all the countries of Eastern Europe with the exception of Bulgaria are governments in default in the payment of their obligations to the United States within the meaning of the Johnson Act. Yugoslavia is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development and is thereby exempted by the terms of the Johnson Act, as amended, from the prohibitions therein.

The Attorney General has ruled that the Johnson Act does not prohibit extensions of credit "within the range of those commonly encountered in commercial sales of a comparable character." The Attorney General has also stated that the scope of the Johnson Act should not be measured in terms of distinctions among the various forms of financing export trade. He determined that financing arrangements lie beyond the scope of the Johnson Act "if they are directly tied to specific export transactions, if their terms are based upon bona fide business considerations, and if the obligations to which they give rise 'move exclusively within the relatively restricted channels of banking and commercial credit.'" (42 Op Atty Gen No. 27) Under Sec. 11 of the Export-Import Bank Act of 1945, as amended (12 U.S.C., Sec. 635th), transactions in which the

Export-Import Bank participates are exempt from the provisions of the Johnson Act.

The effect of these interpretations is to clear the way very substantially for private financing of trade with Eastern Europe, although there is the fact of the preference on the part of private financing agencies for government guarantees or insurance—which goes back once again to the question of the Export-Import Bank legislation.

#### OTHER ASPECTS OF INTERNATIONAL CONSIDERATION OF EAST-WEST TRADE

Apart from the negotiations and activities that stem from the specific legislative provisions I have outlined, there have been discussions of East-West trade issues in several international forums.

The Committee of Economic Advisors of the North Atlantic Treaty Organization regularly reviews general economic developments in European Communist areas and coordinates efforts to improve the bilateral economic and other contacts of member countries with Eastern countries. In addition, the NATO Committee has considered special problems, such as the control of wide diameter oil pipe sales to the Soviet Union and the question of credit policy in East-West trade. The NATO is the forum in which we explore with our allies important aspects of our East-West policies—such as Cuban or North Viet-Nam policies—including the trade aspects of such policies.

The Organization of Economic Cooperation and Development (OECD) has begun a discussion of means of increasing non-strategic East-West trade. A working party met in September 1967 to review members' trade policies in an effort to identify obstacles both in the East and the West. The discussions will continue in 1968 and will probably concentrate on trade effects to be expected from economic reforms going on in Eastern Europe, the specific effects on trade of particular obstacles or of their removal, prospects for industrial and technical cooperation, future trade trends, and the role of prices in trade between market economies and state trading countries.

During 1967, discussions of ways to increase East-West trade were continued in the Economic Commission for Europe. At its 22nd session in April, the ECE agreed on a declaration which, among other points, stated the following: "The member countries of the ECE shall continue their common efforts towards the expansion of trade and to this end shall seek to remove the economic, administrative and trade policy obstacles to the development of trade." Following the lines of the resolution, a group of governmental experts met in October to prepare practical proposals for the removal of economic, administrative and trade policy obstacles to the development of trade. That session was less than wholly successful because some of the Eastern European countries pressed for resolutions obliging Western countries to extend both unconditional most-favored-nation tariff, and non-discriminatory quota, treatment in all cases. Some progress might still be possible in such discussions if an approach of objective analysis could be maintained.

#### CONCLUSION

In conclusion I would like to emphasize that within the framework of applicable laws, we intend to continue to carry out our responsibilities for negotiating adequate multilateral controls over strategic trade on the one hand, as well as for encouraging non-strategic trade with Eastern Europe and the Soviet Union within the intent of the President's policy, on the other hand. We do not have in mind special favors to encourage East-West trade. We propose only to make it possible for peaceful trade to be carried on without special burdens or encumbrance on our side when American companies find it to their advantage to engage in such trade. At this point in time while we are engaged in hostilities in Viet-Nam, the atmosphere is clouded. But it is clear that it is in our long-run interest to encourage peaceful contacts with the countries of Communist Europe. Increased trade and commercial relations can be a force for constructive change in these countries and give them a greater stake in maintaining peaceful relations with the free world.

Mr. SOLOMON. The two most important pieces of legislation which the State Department has responsibility for are the Battle Act and the Mutual Security Act of 1954.

The Battle Act represents a very logical, coherent, and organized piece of legislation. We attempt to use all our influence and all meas-

ures appropriate to prevent third countries, as well as the United States, of course, from trading in strategic goods with the Communist countries in the world. Its thrust is entirely at strategic goods. It is on the basis of this act that the United States participates in COCOM which has, also, an international list of prohibited embargoed items, and there are continuous revisions. Every year there is an annual review in COCOM that takes account of technology changes. Certain items are added to the list; other items may be deleted; other items are clarified.

I think the act has worked very well. The intent of the Congress has been very clearly met and we have had, I think, a very satisfactory observance by other countries of the embargo list.

Turning to the Mutual Security Act, this act is quite a simple one. It basically provides for the export control of arms, ammunition and implements of war by private individuals from the United States. The Secretary of State has the responsibility and it has worked quite simply and clearly. It is an operational problem and we do not have any particular problems that arise from the operation of that act.

Now we get into other areas, though, when we turn to this question of trade with Cuba and North Vietnam which comes up in both the Foreign Assistance Act, the Foreign Aid Appropriations Act, and also in the Public Law 480, the Food for Peace Act. There we get into a series of amendments and provisions, some of which are more severe and more embracing than others, and there are a few inconsistencies.

The thrust of all these different provisions and amendments to these three acts that I have just mentioned are to try and prevent third countries from trading in peaceful goods with Cuba and North Vietnam. I want to emphasize that. It is not a question of strategic goods. The thrust of all these provisions is to try and prevent, deter, penalize, third countries from trading in goods with Cuba and North Vietnam, or having ships go to those countries.

Now, the legislation, I think, has had a mixed series of results. There are some specific cases where we believe it has been successful in its deterrent effect—a few specific countries that depend heavily on assistance from the United States. Of course, the deterrence leverage the Congress has provided for is that there should be no economic assistance under certain conditions, or no Public Law 480 assistance, et cetera.

Now, there are a few countries, as I say, where I feel this has been a factor, but it has probably only been countries who had very minor trade before, and who are heavily dependent on assistance, who have discontinued.

The free world trade with Cuba has continued, most of it being major allies who do not receive assistance from the United States, and the free world trade with North Vietnam has declined. It never was very large in the first place. It is running now at about \$8 million a year. I think it was running around \$12 million 2 or 3 years ago. Their exports run around \$20 million. Their exports are mostly coal and a mineral called apatite which mostly go to Japan, and the free world exports to North Vietnam have to do with—there are some textiles, there are some simple, manufactured consumer goods and there has been some petroleum of Communist Chinese origin carried on Hong Kong registered vessels. That is about the only thing that could be called semistrategic.

You have got a curious situation, it seems to me. Our programs on strategic goods have been generally successful. If you look at our post-war experience, our economic denial programs on peaceful goods have generally not been successful, simply because there are so many countries in the world that can supply these goods.

There has been, I think, more success in the case of Cuba in a certain sense. First of all, there has been the solidarity feeling of all the countries in the Inter-American system who have cut off trade and communications and relations with Cuba with the partial exception of Mexico. This is provoked, not because Cuba is a Communist country primarily, but because of its subversion programs running to Latin America.

On the other hand, trade with the major European countries has continued, of course.

I think that our own denial program on the export of U.S. goods to Cuba has had a significant adverse economic impact on the Cuban economy simply because of their prior heavy dependence upon U.S. machinery, U.S. spare parts, et cetera.

In my statement I called attention to one relatively small point, but I find it an interesting one: The inconsistency between two pieces of legislation in the economic denial area.

I believe in the Foreign Assistance Act and the new Export-Import Bank legislation that is coming out it says, that no assistance should be given to third countries who furnish goods to North Vietnam or whose ships ply that trade while North Vietnam is in armed conflict with the United States.

In the Export-Import Bank legislation that is coming up, it is a more general formulation than in the Foreign Assistance Act. But in Public Law 480, assistance is denied as long as North Vietnam is governed by a Communist regime.

I assume the intent of the Congress was more along the lines of the former formulation than the latter formulation.

Mr. FRELINGHUYSEN. It doesn't make much difference at this stage anyway, does it? Aren't you worrying about something down the road? If hostilities should cease and a country remains Communist, there would be freedom in one case and still a prohibition in another. Is that your point?

Mr. SOLOMON. That is the practical effect, sir, but there is also, it seems to me, a posture effect. The President has made it clear frequently that our efforts are not to change or overthrow the Government in North Vietnam. I think there is, therefore, an inconsistency between the second formulation and the formulation of our policy on North Vietnam.

Continuing, I think these are the major points of my statement, Mrs. Kelly.

Mrs. KELLY. Could you elaborate a bit on your statement regarding inconsistency?

Mr. SOLOMON. I think inconsistency is apparent. It is not our intention to continue the war—the President has made it clear—we are not continuing our efforts in the defense of South Vietnam in alliance with South Vietnam in order to bring about any change in the Government of North Vietnam and, therefore, it seems to me that the formulation of Public Law 480 is very different from the formula-

tion in the Foreign Assistance Act. In terms of posture and policy, it is somewhat of a departure.

Mr. FRELINGHUYSEN. You are not suggesting that our denial of food or surplus commodities to third countries if North Vietnam has a Communist regime, is going to result in meaningful pressure on North Vietnam?

Mr. SOLOMON. No.

Mr. FRELINGHUYSEN. Then what difference does it make? Of course there are semantic differences and we might have an adjustment but I don't see how the result would be any different.

Mr. SOLOMON. The operational result while the hostilities continue is no different.

Mr. FRELINGHUYSEN. Why should we hypothesize about what would develop after hostilities ended? Even though hostilities end, what difference would it make if what we are doing is prohibiting assistance to third countries which trade with North Vietnam, if they have a Communist regime?

Mr. SOLOMON. Well, my point is, sir, once the hostilities end, under the Foreign Assistance Act you will be able to resume assistance to third countries that sell goods to North Vietnam.

Mr. FRELINGHUYSEN. Even if it has a Communist regime. Yet, under food for peace you would not be able to give aid. But I don't know why you are arguing for a change—

Mr. SOLOMON. I am not arguing for a change, but pointing out an inconsistency.

Mr. FRELINGHUYSEN. You are saying it represents something which is not the policy of this country since President Johnson has reiterated that we are not trying to change the nature of the regime in the north. The food-for-peace legislation certainly indicates Congress would like to see a change in that regime. I don't think it interferes with national policy. I think if an effort were made to eliminate the inconsistency, it might be to tighten up the ban on aid of any kind to a country which trades with Communist North Vietnam, whether or not they are in conflict with us, rather than what you are suggesting—that so long as there is no conflict we ought to be able to give either food or aid to third countries which are trading with Communist North Vietnam.

I don't know why we are dwelling on this. It is too far down the road to be meaningful.

Mrs. KELLY. Did you finish summarizing your statement, Mr. Solomon?

Mr. SOLOMON. I think I have summarized the main parts of it. I think that completes the meaningful part of the statement.

Mrs. KELLY. I was delighted to hear you say that the Mutual Defense Assistance Control Act was logical and coherent. I was also glad to hear you say that it worked well. I was one of the original sponsors of that law and I have found it abused, on occasion, even by people in our own Government. I am, therefore, delighted to find out that in the past few years everybody has been very satisfied with this law.

I have two short questions before I call on Mr. Frelinghuysen. One is, How do political advantages grow out of trade?

Ambassador BOHLEN. I think trade with Eastern European countries who have been deeply associated and in the past completely subservient to the Soviet Union pushes along a historical process that

I think you can see taking place in Eastern Europe. That is the re-emergence of the personalities of these countries. The Polish personality, the Rumanian personality and, eventually I suppose, the Hungarian and the Czechoslovakian. I think it is always in our interests to have countries operating on the basis of their own interests and determining their own policy and not having it dictated to them.

Also I mentioned perhaps a secondary consideration, but one which could have importance for the future and that is the very fact that they are engaging in competition in foreign trade tends to weaken the strength of the Communist parties in these countries. They have to respond to the needs of the market and the wishes of the consumers which tends to make them more flexible rather than directed from one center.

You have already seen that happen in the case of Yugoslavia, which has gone very much further down this road than anybody else. I believe I am correct in saying that in Yugoslavia the Communist Party no longer has a monopoly of political power that it used to have and still does in most of the other Central European countries.

To sum it up, I would say it seems to be in accordance with a historical trend which we feel in the long run is in the interests of the United States, the breaking up of the monopoly controlled by one center. It also could have the effect of certain modification of the system and giving a little more freedom to the economic institutions of the country to operate without the total control of the Communist Party of that country.

Mrs. KELLY. Well then, do you feel that trade will shore up the Communist regimes that already exist?

Ambassador BOHLEN. No, I do not. I think the effect has been on the whole the opposite. When I look back on periods of so-called serious detente, it always seems it was a cause of more concern to the Communist authorities. By their very nature, when they are in their pristine form the way they used to be, everything is totally controlled from one center. The influence of any other factors from outside tends to weaken that structure. I do not feel that it shores them up very much. As I said also, trade is a reciprocal thing and American businessmen, American exporters, will benefit from it. The other country may benefit from the point of view of trade, but I do not feel it shores up the system at all. I think the effect would be the contrary.

Mrs. KELLY. Could I conclude, then, that you do not believe that trade should depend upon political factors but should be based on good, hard business considerations?

Ambassador BOHLEN. I think this: I don't think trade is ever done as a favor, as I have ever understood it. I think people who are in business are in business to show a profit and to make money and I have never heard of trade being done out of pure sentiment.

Mrs. KELLY. Should the list compiled by the State Department under the Mutual Defense Assistance Control Act be brought in line then with the COCOM list?

Ambassador BOHLEN. I will tell you, Mrs. Kelly, I am not too familiar with the exact difference at the moment between the American list and the COCOM list because those have been modified over the past year, so I don't know whether I could speak to that. I would defer to Mr. Solomon on that.

Mrs. KELLY. Mr. Solomon, could you comment on that?

Mr. SOLOMON. What I would like to do is move in that general direction over the long run, but do it on a case-by-case examination. There have been some differences of opinion between us and our COCOM partners on marginal strategic cases and those we might wish to keep, you see, on our U.S. embargo list. But, in general, where it is peaceful goods, I think we are just hurting ourselves.

Mrs. KELLY. But not all of them are necessarily "peaceful." For example, I could refer to those things that have been taken off the list in the past. As I remember, the first large group taken off the list in 1954 included rubber and many other items which could have been used for "nonpeaceful" purposes. I objected to that change at that time.

I realize, of course, that not all people will agree about what constitutes a "peaceful" or a "nonstrategic" commodity. In 1966, when President Johnson relaxed some export controls on approximately 400 items which included clothing and other consumable goods, some people thought that he was going too far. On the other hand, I have heard some business people say that they are prevented by export control regulations from dealing in products which are readily available for sale in Western Europe.

Now, you say that gradually we should take off some items from our control lists?

Mr. SOLOMON. The ones where all the technical people come to a unanimous conclusion, that they should be off, then I think they should be off.

A tremendous amount of time is spent by the technical experts of the Defense Department, the Commerce Department, and the CIA. All these people work on this and unless there is unanimous agreement those things are not taken off.

Now, there are always some items in the kind of modern technological world we live in where there is a dual use, you see, and you have to be careful and you have to look at it in terms of the individual situation, and also the needs of the destination where it is going and form a judgment on these marginal cases.

Mrs. KELLY. Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. Thank you, Madam Chairman.

Mr. Ambassador, you have already argued, I think very eloquently, against economic denial on peaceful goods as a useful device for this country and yet, there is, as you know, extreme sensitivity on the Hill toward such trade, especially I would suppose, with the Soviet Union.

I assume you grant there is a considerable difference regarding the various countries that we are talking about.

Ambassador BOHLEN. Oh, yes.

Mr. FRELINGHUYSEN. In other words, there might be more meaningful reaction in a small country such as Yugoslavia or Poland, than there would be in a big country. Or is your point of view broad enough to include an impact in any country?

I would assume that as big a country as Russia isn't going to be much influenced one way or another by the very small amount of trade she would expect from us even if we should have a complete change of

heart, either because the Vietnam war ended or because there was a change of feeling here, and the restrictions were lifted.

Ambassador BOHLEN. I don't think even in a smaller country—I can't think of any one offhand which is very dependent on trade with the United States. Mr. Solomon, can you think of any country in Eastern Europe where—

Mr. FRELINGHUYSEN. I don't suggest anyone is dependent. I assume they are not.

Ambassador BOHLEN. Where it would have a major effect on the internal functions of the country, the denials you are speaking of?

Mr. FRELINGHUYSEN. I assume, no matter what we did in the way of liberalizing trade, it would not have much impact. You said, in effect, as I remember, that anything we can do to encourage a reassertion of national personalities is good and therefore trade with these countries is good.

Ambassador BOHLEN. I think so, particularly in the smaller countries.

Mr. FRELINGHUYSEN. How can it have a significant impact on the reassertion of national personality one way or another, if our trade isn't significant?

Ambassador BOHLEN. Well, I think it is part of the others. If you add the trade of Western Europe and the trade of all the free countries. I think it might have a certain effect, but I think it is in line with the general tendency that you see now—

Mr. FRELINGHUYSEN. But you are bringing in a very different factor. If we were influencing the trade of the Western countries, I would think it would be a very important factor. But, as Mrs. Kelly says, the United States is simply an interested observer with respect to this increasing trade between the Western countries and Eastern Europe, and we have no control. One of our problems is that we have no control. Isn't the issue, should we remain on the sidelines, or should we let our businessmen participate in what the Western businessmen are presently doing?

It doesn't make sense to me, I might add, for us to sit on the sidelines and let these opportunities go by.

Ambassador BOHLEN. I don't see why we should deny our businessmen the possibility of indulging in peaceful trade with these countries. I would think whatever effect it would have it would be on the side of the favorable aspect rather than unfavorable political aspect. It wouldn't be controlling because it isn't enough and I don't think it would be sufficient in any of the countries to be a very major factor, but it would be in line with the type of development which I think we would like to see.

Mr. SOLOMON. I think there is an additional point. Since we are the leader of the free world, if we have one monolithic policy on this toward all those countries of Eastern Europe, they tend to feel united among themselves and on the defensive in regard to this policy. Even though I think you are right that it is primarily the trade of the rest of the free world with those countries which is the significant level prying open the Iron Curtain and helping the identification of national personalities, I think the psychological factor of our being there would also contribute to that process.

Mr. FRELINGHUYSEN. I am not sure I understand how we do regulate trade. This COCOM list is developed by 15 countries agreeing among themselves on a voluntary basis what are to be considered strategic goods. I assume from what has been said that the United States has a more restrictive point of view as to what is strategic than is represented by the COCOM list, is that right?

Mr. SOLOMON. In our own unilateral embargo list, except where licenses are given, we have a much more extensive coverage than the other countries. The other countries, in their unilateral control list, tend to coincide more or less with the COCOM list. The COCOM list, as such, is kept confidential because this was the understanding—the way the thing was started from the very beginning and democratic governments prefer that, but in practice the actual unilateral, the issued control lists of the Western European countries tend to conform reasonably, not exactly, to the COCOM list.

Mr. FRELINGHUYSEN. Does the United States have any restrictions on the export of computers?

Mr. SOLOMON. Oh, yes.

Mr. FRELINGHUYSEN. How can you control the use of a computer? Can you keep strings attached to it and prevent it from being used for a strategic purpose?

Mr. SOLOMON. Yes.

Mr. FRELINGHUYSEN. That will be a difficult thing to do.

Mr. SOLOMON. No, it isn't apparently. All the experts agree, all the experts on our side as well—if a computer is going to a particular factory—say it is going to a bank in a certain Communist country or it is to be used in running a bank, or it is going to a railway, or to be used in a government office on rationing, first of all, there are servicing arrangements whereby the service people from the factory who sold the computer in the exporting country go in frequently. There are spare parts arrangements, there are various kinds of continuing contracts, apparently—and also the very characteristics of the particular computer make it very suitable for a particular civilian use and not easily usable at all for another use.

There is a general feeling as well that both through overt channels and through intelligence channels, if that computer were taken out, either physically or were changed, or began to be used for military purposes, that in most cases we would know about it.

I assume there is always some possibility in a certain type of computer in a certain type of situation that you would have the possibility of military use of it, and that would then be in the category of a marginal case, the merit of which would be debated.

Mr. FRELINGHUYSEN. Assuming that the United States has greater restrictions on the export of computers, for example, than all the Western European countries, do our restrictions in themselves prove anything if the Eastern European countries, or the U.S.S.R., can get the sophisticated equipment that we refuse to sell but which Western Europe does export to Eastern Europe? In other words, what value is there for us to adopt a different set of standards from what the COCOM agrees to? Their trade seems to make meaningless the restrictions we impose on ourselves.

Mr. SOLOMON. We are about 2 years ahead of the Western Europeans, roughly, in the technology of computers. That is a broad gen-

eralization and obviously subject to the usual loopholes. Therefore, where we are more advanced, more sophisticated in our technology, there is some usefulness in our having a more extensive list.

Mr. FRELINGHUYSEN. Is that the only difference?

Mr. SOLOMON. If we are all making the same thing, then there is no advantage..

Mrs. KELLY. Mr. Solomon, before I call on Mr. Hamilton, I would like to ask you, is the term "munitions" defined the same way in both laws, the Mutual Security Act and the Mutual Defense Assistance Control Act?

Mr. SOLOMON. I am not 100 percent sure of my answer, but I believe, Madam Chairman, that the Battle Act list is more extensive because that is not simply munitions and weapons and implements of war in the Title I list. It is somewhat more extensive. Whereas, under the other act where it is a more straightforward question of simply the State Department licensing any munitions sale, I think that that would be a clear and more limited set of products.

Mrs. KELLY. Then to return to the U.S. munitions list, who compiles that list in the State Department?

Mr. SOLOMON. There is an Office of Munitions Control.

Ambassador BOHLEN. It will come under me. It is under me now and that I think probably is where it is done, where the list is issued.

Mrs. KELLY. Is there an internal departmental group which also works on this problem?

Mr. SOLOMON. In consultation with Defense, on every single license, I understand, but there is not a big interagency consultation; there is no need. You don't have these marginal interpretation cases that you have in the Battle Act list.

Mrs. KELLY. Is there a plan to change this list?

Mr. SOLOMON. No.

Ambassador BOHLEN. I haven't heard of it.

Mrs. KELLY. You said before you felt that the State Department prohibitive list should be brought in line with the COCOM list.

Mr. SOLOMON. What I said, Madam Chairman, is this: That the Commerce Department list—I had understood your question—and I am afraid there is a misunderstanding—

Mrs. KELLY. I am speaking of the lists which are compiled under both laws. If we are going to restrict our businessmen from dealing in commodities described on one list, with our allies, their businessmen, are subject to another list, then our businessmen may be at a disadvantage.

Is there a plan whereby the restricted U.S. lists compiled under our several laws, will be brought into line with the COCOM lists?

Mr. SOLOMON. The Commerce Department list, which is what you are referring to, which is now more extensive than the COCOM list, there has been a continuing policy ever since it was first started of continuous examination of the list to see what items should be added, what items should be deleted.

The President made clear when he announced in October 1966, that there were 400 items being transferred to general license, that this policy of case-by-case examination, and, where feasible, where appropriate, switching from the validated license to a general license would continue, and this has been done, but there is no plan to do

anything differently than has been done in the last few years on this which is these periodic examinations and the switchover.

Now, that is not the list that the State Department controls. The State Department list is the munitions list, and a much simpler list. This happens to be included as well, incorporated in the Battle Act list, but it is a much simpler list. It is just what we think of normally as straight munitions and implements of war. There have been none of the problems that you are talking about in regard to businessmen in this country being more disadvantaged in business than any other country.

Mrs. KELLY. Mr. Hamilton.

Mr. HAMILTON. Let me ask a few rather basic questions.

What is the extent of our trade with the Soviet Union today in dollars?

Mr. SOLOMON. Exports are running around \$60 million we believe, and about \$42 million imports. For previous years it was balanced at around \$45 million with the exception of 1964 when we had that big wheat sale.

Mr. HAMILTON. Was there a sharp increase last year in our exports to the Soviet Union?

Mr. SOLOMON. A modest increase, from \$45 to \$60 million.

Mr. HAMILTON. And there is a favorable balance of trade situation.

Now, what is the situation with regard to Eastern European countries? What would be the total amount of trade to Eastern European countries?

Mr. SOLOMON. For the Eastern European countries, including the Soviet Union, it is \$197 million. It is more or less balanced; \$200 million.

Mr. HAMILTON. What is the trend? Is that staying even or is it increasing sharply each year?

Mr. SOLOMON. It is interesting to look at it country by country. The trend with Poland shows a steady, modest increase. They sell more to us than we sell to them, particularly now that we don't give Public Law 480 or sell them Public Law 480.

With the other countries we tend to have a favorable balance normally.

There was until 1967, I would say, a fairly steady, modest increase, but last year in 1967 the total trade did not increase. In fact it declined. Eastern Europe, as a whole, declined.

Mr. HAMILTON. How does this trend compare with the trade trends of Western Europe and Japan with Eastern Europe?

Mr. SOLOMON. Those are increasing very sharply and continue to increase. They are now running, I would calculate—we don't have the current figures—around \$7 billion. The free world as a whole, including the United States. We are minute in this. The free world as a whole is running \$7 billion currently, I would guess, each way.

For 1966, which is the last year for which we have definitive figures, it was \$6.5 billion exports and \$6.6 billion imports.

Mr. HAMILTON. Is it fair to say that the business communities in Western Europe and Japan are moving hard into this area?

Mr. SOLOMON. Very much so.

Mr. HAMILTON. What is going to be the long-range impact on us if we permit this to continue?

Mr. SOLOMON. Well, we are denying ourselves a vast area of the globe with a great potential for foreign trade.

You see, the thing that has to be recognized—and in this I may have a slight difference of view with Ambassador Bohlen—it is all a question of personal speculation, you might say, as to what the potential for trade is between the United States and Eastern Europe.

I agree there is not much potential in terms of manufactured consumer goods. We would not be interested in their goods, but we are importing increasing quantities of metals from them. They sell us quite a few metals which are in scarce supply in the world; platinum, palladium, rhodium, titanium. These we would not sell to them. They would be strategic.

There is an interesting shift in our own economy. We are rapidly becoming less competitive in exports of simple manufactured consumer goods to the world as a whole and more and more competitive in basic agricultural products, and in highly sophisticated technology, which is capital potential.

Now, therefore, there is a market both in raw materials—there is a trade potential in raw materials, and in sophisticated goods between us and Eastern Europe. So far what the Soviet Union is buying mostly from us are agricultural raw materials, not sophisticated technology.

Mr. HAMILTON. Are you saying to us there are certain metals, for example, that they export to us that are vital for our economy?

Mr. SOLOMON. Yes; they are very important to us.

Mr. HAMILTON. And what would happen if that were shut off from us?

Mr. SOLOMON. We would have some problems.

Mrs. KELLY. Where did we get them before we got them from Russia?

Mr. SOLOMON. Platinum and palladium we have always imported from the Soviet Union. The Soviet Union supplies about 50 percent of the world's supply of palladium. The only thing we have increased recently in our purchase from the Soviet Union of metals is chrome since we are not getting it now from Rhodesia. That is just chrome though, and that is a minor factor. Our big metal imports are platinum and palladium and metals in that family.

Mrs. KELLY. Did we get them from Africa at any time?

Mr. SOLOMON. Not in significant amounts.

Mrs. KELLY. In other words, we have always gotten them from Russia?

Mr. SOLOMON. We seem to be using, first of all, more of those metals. There are other countries in the world that supply small amounts of those.

Mrs. KELLY. Could you name them?

Mr. SOLOMON. I can't name them offhand, but I can supply that for the record.

Mrs. KELLY. Without objection, that will appear at this point in the record.

(The information follows:)

In 1966, according to the Bureau of the Census, total imports of platinum and platinum group metals by country of origin were as follows:

Country:	Value
Canada .....	\$8,725,572
Panama .....	43,283
Colombia .....	2,080,384
Argentina .....	83,216
Sweden .....	96,795
Norway .....	1,060,795
United Kingdom .....	42,540,129
Netherlands .....	622,250
Belgium and Luxembourg .....	208,176
France .....	203,617
West Germany .....	3,406,637
Switzerland .....	5,088,459
Union of Soviet Socialist Republics .....	19,047,794
Gibraltar .....	58,953
Italy .....	82,124
Japan .....	45,476
Ethiopia .....	98,000
Republic of South Africa .....	11,296
Countries under \$10,000 .....	22,807
Total .....	\$83,525,763

Mr. HAMILTON. As I understand, there is no aid going to countries dealing with North Vietnam? Is that generally correct?

Mr. SOLOMON. That is generally correct.

Mr. HAMILTON. Are there exceptions to it?

Mr. SOLOMON. I am trying to think of any. I don't think there is.

Mr. HAMILTON. May I say to you that point is widely misunderstood—at least in my part of the country, in Indiana. I just returned from a week or so out there and there is a wide body of opinion that thinks we are still extending considerable aid to countries dealing with North Vietnam. It might be helpful if there were some statements to that effect.

Mr. SOLOMON. Let me say this: We cut off our residual military assistance programs in France and in the United Kingdom in early 1964 and an economic assistance program in Yugoslavia at about the same time. These programs were terminated because the countries' ships were still in the Cuban trade. Although Hong Kong ships flying the British flag were going to North Vietnam, the prohibitive provisions had not yet been incorporated in the Foreign Assistance Act. In addition, the fact that Cypriot ships were going to Cuba and to North Vietnam was a factor in the terminating of a small economic assistance program for Cyprus in late 1966.

There is no aid program that I know of anywhere, of any kind, today, to any country that sells any kind of goods to North Vietnam whatsoever.

Mr. HAMILTON. Now, I am under the impression that these various restraints on aid have been almost forced upon the administration by the Congress and that you have very reluctantly accepted them. Why?

Mr. SOLOMON. I will try to answer that and I think Ambassador Bohlen would probably be interested in answering that also.

The history of these programs and the realities of each situation have shown that the intent of the Congress; namely, to deter these countries, dissuade these countries from supplying North Vietnam through this penalty, cannot be achieved. What happens is, as you saw,

we have to cut off the program. They will not stop sending peaceful goods in tiny amounts to North Vietnam. They prefer, if for no other reason—and apparently it is a matter of sovereignty—they prefer to see the U.S. assistance program terminated. Therefore, the intent of the Congress is not achieved and you simply prejudice other foreign policy objectives of the United States.

Ambassador BOHLEN. I would agree with that. The efficacy of these matters doesn't seem to be borne out by the past. I don't know of any country that has been deterred from trading with North Vietnam because of the cessation of our aid.

Mr. HAMILTON. Isn't the lack of assistance going into that country a detriment to their own economy?

Ambassador BOHLEN. Apparently not enough to cause them to abandon the trading practices that brought the cancellation into being.

Mr. HAMILTON. Do you think this is a hindrance to effective foreign policy?

Mr. SOLOMON. Generally speaking. I think there are one or two marginal cases involving Cuba where our denial program has not been able to bring about a full cessation of trade, but a reduction in trade.

In regard to North Vietnam, I don't know of a case—for example, in these cases here that I just mentioned, Cyprus, the United Kingdom, France, and the fourth one I mentioned was Yugoslavia—no, Yugoslavia has never sold to North Vietnam. That was because of Cuba we terminated the program there. It was those three countries. Cyprus, United Kingdom, and France. We terminated and they did not—even though their trade was very, very small, they still did not stop their trade.

Mr. HAMILTON. If I may ask one other question, Madam Chairman, what has been the impact of these various restraints on the Eastern European countries? How have they responded to these restraints?

Mr. SOLOMON. Which restraints are you talking about?

Mr. HAMILTON. The various restraints which prohibit any programs of assistance to countries dealing with North Vietnam and Cuba.

Mr. SOLOMON. We never gave any assistance programs to the Communist countries of Eastern Europe so they are not directly affected.

Mr. HAMILTON. Even under Public Law 480?

Mr. SOLOMON. Well, Yugoslavia, because we have considered it in a very separate category.

Mr. HAMILTON. How about Poland?

Mr. SOLOMON. Poland? Right. I see your point, yes.

Mr. HAMILTON. I want to know how they have responded. What problems has this created for us specifically with Eastern European countries?

Mr. SOLOMON. On the food aid, you are right. I am not as familiar with that part of it because the Polish desk would be a little more involved in it, but certainly it did not contribute to the general foreign policy objectives that we have vis-a-vis Poland. It was an adverse factor in our relationships.

Mr. HAMILTON. That is what I am trying to drive at. Why was it an adverse factor? What happened to make it such?

Mr. SOLOMON. Well, other countries tend to feel that as long as they have national sovereignty, they have a right to conduct trade relations with third countries as they deem to be in their own interests.

Mr. HAMILTON. That is all, Madam Chairman.

Mr. DERWINSKI. Mr. Secretary, I would like to be sure I understand the point you have been emphasizing. Is the use of trade as a political weapon a part of the administration tactics at this time?

Ambassador BOHLEN. I think it would depend on the circumstance. I think we certainly would use it in a case like Cuba where Cuba is the center of a lot of subversive activity throughout Latin America. We would and do use it as a political weapon. We use it with regard to North Vietnam and also with regard to North Korea and China, but in Eastern Europe, given the circumstances there, I wouldn't think we would use it.

Mr. DERWINSKI. In other words, it isn't the nature of the government; it is their immediate policies to which we must adapt, is that what you are saying?

Ambassador BOHLEN. Yes. I would say a country that isn't particularly engaged in overtly hostile action towards the United States, we wouldn't invoke a political reason to limit the trade except for things set forth by act of Congress where you limit certain assistance to the countries that are trading with North Vietnam.

Mr. DERWINSKI. Then how about the application of this policy to a non-Communist country? Let's say a hostile nation such as Syria or Egypt, which is involved in the Middle East crisis. Would you consider our withholding of trade as a weapon we might use to good advantage?

Ambassador BOHLEN. Well, I am not familiar with our trade policy toward the Arab countries particularly.

Mr. DERWINSKI. I am speaking of principle now. In other words, the principle of using trade as a weapon.

Ambassador BOHLEN. Well, I don't know that those countries have been particularly hostile. Many of them broke off relations with us and I imagine some of the trade went along with that.

Mr. DERWINSKI. Mr. Solomon, is it not a fact that prior to World War II when these Eastern European countries had legitimate governments, that their trade with us was basically small in proportion to our total figure?

Mr. SOLOMON. Yes.

Mr. DERWINSKI. So in effect then the market that you supposedly seek is nonexistent?

Mr. SOLOMON. It was small and I think it will still be small in terms of our total trade. I didn't mean to give any impression to the contrary, Mr. Derwinski. I just think that it could be significant. For example, let me give you some numbers. This is going out on a limb and making estimates, but I would assume that the present \$200 million total of our exports to Eastern Europe, if we were able to regularize the trade with them, give the President the authority he has asked for to give equal tariff treatment, I would assume within a relatively short period of time—3 or 4 years—and if we could have the Export-Import Bank financing normal commercial terms—not long-term credit—I would assume that we could reach half a billion dollars within a very short period of time.

Mr. DERWINSKI. This is in our exports to them. You mentioned earlier that they produce very little that has a natural competitive entree to our market.

Mr. SOLOMON. I think, you see, that we can sell them more, and they will buy more from us than they would sell to us. I don't think that they would insist on an exact balancing. Even though the Communist countries tend to do a rough balancing, they will, as you look at the case of the United Kingdom, France, and Germany, they will, with some countries, run significant balance of payment surpluses or trade surpluses, and with other countries significant trade deficits, so that they could do as the Soviet Union did this year; they could finance, you see, by some of the currencies they earn in Western Europe; they could finance a larger purchase from us than they sell to us.

Mr. DERWINSKI. We seem to range almost without restraint from the philosophical to the practical positions. Looking at the moral question, how do you justify opening up the United States as an import market for Polish hams, when the people of Poland are subject to meat rationing? In other words, don't we have any concern for the oppressed captives of those countries, or doesn't that enter into it?

Ambassador BOHLEN. I think you are opening up a very large field there because, depending on what countries export, they often export things that could be used at home. I think it is a very, very large field and it is difficult to give an absolute answer. I know in Soviet history that there have been times when the Soviet Union was exporting grain when they had virutally a famine in the country. This was back in the twenties and early thirties. But I don't know how you are going to implement a moral principle in trade matters. If the Polish Government chooses to export hams instead of supplying them to their people, they must think it is to their overall interests as a country or a regime, and I don't know how you would judge it.

Mr. DERWINSKI. In other words, what you are saying is that they are allowed to use political or economic strategy whereas all we want is to seek normal trade. You permit them to have motivations far beyond our motivations.

Ambassador BOHLEN. Well, I think the motivation of the Communist regime is quite different than the motivation of the U.S. Government in these matters, and I think why we should have normal trade, it would be in countries where they are not engaged in any specifically hostile actions against us. I then think it is in our best interests to let the trade go ahead. I think the long-term effect of it will be, on the whole, beneficial to the United States.

Mr. DERWINSKI. I want to be sure there is some element of consistency in this position. Any government then, regardless of its nature, that isn't carrying on a hostile action against us or against one of our allies, should be subject to any possible trade that is practical and mutually beneficial? Is that a fair summation?

Ambassador BOHLEN. I think it is if you only except the strategic list, which we apply.

Mr. DERWINSKI. In other words, then, you are violating your own policy by refusing to trade with Rhodesia?

Ambassador BOHLEN. I don't believe we have a complete boycott, have we?

Mr. SOLOMON. We took the action of the U.N. Security Council.

Mr. DERWINSKI. All right. Let's take a look at the consistency of it. Let's take a look at the Soviet Union supplying to the Federal Government of Nigeria, when we and the British have agreed not to supply military equipment. Wouldn't this be cause enough for us to assess this as an obvious troublemaking, anti-free world activity, and stop all trade with the Soviet Union?

What do we tolerate and what do we not tolerate?

Mr. SOLOMON. My personal view—and I think this has been a long-held view in the executive branch, is that when you are talking about people trading goods, which they can get from other countries in the world, and you are talking about not long-term credit, but you are talking about commercial terms, or cash sales on both sides, that you are achieving nothing by cutting off the trade; absolutely nothing, except making a gesture back home here. You are cutting off an area of useful economic activity which is not terribly major, but our Government works on the premise—and every government in the world—that trade is useful to us and you are giving an impression of an unreasoning, irrational hostility because we are one of the few governments in the world that introduces political considerations into trade relations.

Mr. DERWINSKI. But, Mr. Solomon, you pointed out earlier the type of product we presume would be competitive. We would assume then that these Eastern European dictatorships, or the Soviet Union, or any other country won't make purchases from us unless our particular product is competitive. To be competitive, we would have to lower our price to drive the bargain. In other words, if they could get it elsewhere, they might have to pay a higher price, which would be a drain on their gold reserves or a drain on their hard currency.

Mr. SOLOMON. No; that isn't so, sir. You know how complicated commercial arrangements and dealings are. If we are competitive at our standard price—I don't know of any U.S. businessman who has ever lowered his price to make a sale to Eastern Europe. On the contrary, I think they tend to do rather well in those sales, and we are competitive with many products and it would not be a question of lowering price.

Mr. DERWINSKI. In your prepared statement, Mr. Solomon, you referred to the responsibility of the State Department in advising the Secretary of Commerce under the Export Control Act. Then at a later point in your conclusion you pointed out very clearly that it is the position of the department, and in the longrun interests of the United States, to encourage trade with countries of Communist Europe.

Obviously your advice will coincide with your views so that your advice at all times would be in the direction of agreeing to any trade request rather than taking a hard look at the overall package.

Mr. SOLOMON. I don't think that is true, sir, for this reason: I am a firm believer in the Battle Act. I think it has been a great piece of legislation and where it comes to denying strategic goods, we depend upon or rely heavily on the technical expertise of Defense and Commerce and the Intelligence Agency, and we do not challenge the technical expertise.

Now, we want the Battle Act to function as effectively as possible. We are constantly engaged in negotiations which are very difficult, with other countries in COCOM, to try to make the COCOM list as effective as possible.

Now, if we have something that is clearly a peaceful goods item, I think there is no question about it. The whole executive branch of Government is unanimous in this. I must say that I have been impressed by how few are the cases in which there has been a difference of view among the different agencies. You will have occasion to speak to them yourself and you might ask about that.

Mr. DERWINSKI. Thank you.

Mrs. KELLY. Mr. Zablocki.

Mr. ZABLOCKI. Listening to your testimony and perusing your statement, Secretary Solomon, I came upon this: The administrator of the Battle Act program is the Secretary of State appointed by the President. However, you are, in effect, the acting administrator, and the Chairman of the Economic Defense Advisory Committee. Within that group you have the advice of other agencies such as Commerce, Atomic Energy, and the Department of Defense.

The Committee, as I understand the matter, has two active working groups; one dealing with changes in—reading from your testimony—or interpretations of the Battle Act strategic list.

Now, what do you mean by “changes in”? Are you preparing changes to be incorporated in the legislation?

Mr. SOLOMON. Each year there is a review in the COCOM of the COCOM list, and then we change the Battle Act list to conform to the changes in the COCOM list.

Each year we ask all the agencies of Government what new items they want to put on this COCOM list; what items do they want to delete from the list that they feel are no longer important, and what items do they want to clarify, because problems of clarification and interpretation always come up during the year. We in the State Department do not have the technical expertise, so we rely heavily on the other agencies. We reach a U.S. position which we give to our delegation, and we negotiate in the COCOM to bring these about. This is what we mean when we talk about changes.

Mr. ZABLOCKI. To what extent are the changes dependent on political factors? I gather there are some such factors that come into play. Certainly the U.S. list is affected not only by decisions arrived at in COCOM, but also by the unilateral policies of friendly countries. For example, how will the U.S. list applicable to East Germany be affected by what West Germany agrees to sell to East Germany? Is our list influenced by the trade policy of the West Germans, or the East Germans—does that come into play?

Mr. SOLOMON. Not as much as you might think, sir, and for this reason: You are talking about strategic goods so, therefore, the 15 nations who are members of COCOM get together, and each delegation says, “We think that such items should be added, or such items should be deleted, or such items should be clarified.” There is then an exchange of technical papers as to why such an item has now become of primary strategic importance, or such an item is no longer of primary strategic importance.

These are threshed out in the multilateral forum for all Communist countries as a whole. There is no differentiation in the COCOM list for one Communist country as against a Communist country. We are talking about strategic items and agreement is reached.

Now, the U.S. list includes not only the COCOM items, but many more, you see.

Mr. ZABLOCKI. It was brought out earlier that in some instances our restricted commodities may not appear on a strategic list of another country. Don't we in such cases, tend to reclassify our items and remove them from our strategic list?

Mr. SOLOMON. No, sir. What happens is this: The clearly strategic item is on the COCOM list in one form or another. You may have a few cases where agreement could not be reached and, therefore, it is up to the individual government to determine what the cutoff is. On the clearly strategic items there is no question. The items which are marginal and where there is a difference of view and where agreement cannot be reached—let's say the United States proposed that 10 items be added to a list and the other countries agree that only seven of those be added to the list. We would still continue to exercise our full licensing controls, our full embargo controls on those other three items anyway.

Mr. ZABLOCKI. I believe you said, Mr. Secretary, that ours is the only country which has political conditions for trade?

Mr. SOLOMON. I didn't mean it in that sense, sir. In the ideological sense, we have much more than other countries—

Mr. ZABLOCKI. Do we really? Rhodesia was mentioned earlier. In that case, we joined Great Britain after they put on an embargo.

Ambassador BOHLEN. It was the Security Council.

Mr. ZABLOCKI. Yet the Security Council does not see it our way on Vietnam and you said it was a two-way street, the business of trade.

Let me say as one who was a cosponsor in 1950 of the Battle Act, that in 1959, a short 9 years later, I felt that there was a need for some rethinking and reviewing. I therefore joined with the then Senator Kennedy, later President Kennedy, in sponsoring an amendment to the Battle Act. I do think that legislation must change as the world around us changes. At the same time, we ought to get a bit more hard nosed in this trade field. We can't go in two directions at the same time.

Ambassador BOHLEN. I would say the United States, as a rule, has always sought to avoid political considerations in its trade policies. I think this would be true. But, since the end of the war, because of the ideological consideration, because of the fact we were engaged primarily in the war in Korea and now in Vietnam, this has very heavily influenced our thinking in this matter. I think to say everything being equal and if you haven't special circumstances like Cuba with subversive activities in Latin America, or the Chinese with their vicious hostility in the war, or Vietnam, or North Korea, or something of this kind, if you haven't that, we still try to hold to the principle that trade should be free with the exception of those particular strategic items which have been mentioned.

Would you agree with that?

Mr. SOLOMON. Except where Congress does not feel we should give equal tariff treatment to the other countries in Eastern Europe.

Mr. ZABLOCKI. Of course, this would depend on other things being equal. If we didn't have the war in Vietnam, we may be able to change some policies. Also we wouldn't need NATO if the Soviet Union was not a threat.

Madam Chairman, I certainly want to congratulate you for holding these hearings, because this is a very important subject. We in Congress have our problems with what is "strategic" trade and what is "nonstrategic" trade. I think these hearings will help to clarify this issue.

If I may ask just one final question; Mr. Solomon, you said: "We do not have in mind special favors to encourage East-West trade." Do you mean to say that you will not suggest or urge equal tariff treatment for the Eastern European countries?

Mr. SOLOMON. We believe in equal treatment. We do not consider that a special favor.

Mr. ZABLOCKI. But you do not believe in special favors?

Mr. SOLOMON. Special favors? No.

Mr. ZABLOCKI. Yet you are in favor of equal tariff treatment?

Mr. SOLOMON. But that is not a special favor.

Mr. ZABLOCKI. What would you classify as a special favor?

Ambassador BOHLEN. Rebates, subsidies.

Mr. SOLOMON. There could be long-term loans, which is a special favor. Under certain conditions we have subsidized the export of certain products, particularly agricultural products. I guess it is primarily in the area of special financial arrangements that we were thinking of that, in that context.

Mr. ZABLOCKI. Most of these Eastern European countries feel that equal tariff treatment is the best treatment they could receive from us.

Mr. SOLOMON. But we do not consider that a special favor.

Mr. ZABLOCKI. Thank you very much.

Mrs. KELLY. Mr. Findley.

Mr. FINDLEY. Mr. Ambassador, if I recall your words correctly, you stated it would be natural and proper for any country to seek to be independent and in full control of everything within its territory.

Ambassador BOHLEN. I would agree with that.

Mr. FINDLEY. Is that not the rationale that President de Gaulle used to justify his action in causing the withdrawal of the NATO integrated command from French soil?

Ambassador BOHLEN. Let me state right off that we did not agree with President De Gaulle's analysis of the situation, but we never questioned his right to do it. He has an independent country and has an absolute right to do it. I think our differences would be that we didn't feel France was at all dependent even in the past and, therefore, if it is not dependent, you are not regaining independence; you are just continuing to exert a right of independence. If she wishes to make a decision with which we don't agree, that is her right.

Mr. FINDLEY. But President De Gaulle could make the valid point that military forces on French soil were not under French command. He could certainly substantiate that premise, could he not?

Ambassador BOHLEN. Yes; that is true, in all the questions I would just like to remind the committee that the reason for those troops being put in France was at the request of the French Government in 1950 or

1951. It is a chapter of history which has been revised. I don't think there is any contradiction between De Gaulle's attitude and his action—we fully recognize his right to do it—and my statement that on the whole we believe each country should have similar rights to determine its own destiny.

Mr. FINDLEY. I would assume from that we shouldn't deal too harshly with De Gaulle upon that decision then.

Ambassador BOHLEN. May I answer that I don't think we have?

Mr. FINDLEY. Mr. Brzezinski, who recently was in the Policy Planning Committee of the Department and quite a distinguished member, in a recent book argued that our Government should use the carrot-and-stick techniques in its relationships with Eastern Europe. What could be used is MFN, long-term credits and such as that. He argued that these carrots and sticks should be used for political objectives to be given and to be withdrawn, depending upon the action of the Eastern European countries.

Is that a reasonable policy for our Government, would you say?

Ambassador BOHLEN. I think it would be a very hard one to implement, you know, to have the carrot and the stick. That is a very simple sort of illustration. When you are going into this sort of stuff, it is very difficult to know. You might suddenly decide you would grant a country all these things and then they would take an action you would consider inimical to your interests and you would consider rescinding them and they would say they would cease to stop and it would be a very complicated thing to administer. Naturally, when you have Vietnam going on, I think this becomes a chief obstacle in the way of assignment of "most favored nation" or any tariff agreement.

Mr. FINDLEY. In the consideration of the Export-Import Bank legislation I offered an amendment which was not accepted. Under it a condition for credits by the Bank would be an obligation upon the part of the other country to see to it that every contract was covered by a provision for impartial adjudication or arbitration of commercial disputes and for protection of patent rights. This was not accepted, but this was an effort I made in respect to the post Vietnam era to try to bring the Eastern European countries into marketplace practices. Do you have a comment?

Ambassador BOHLEN. I will ask Mr. Solomon to speak to this.

Mr. SOLOMON. We have sought, Mr. Findley, exactly the same objectives on arbitration, compulsory arbitration and third country adjudication, and the patent arrangements and all the others that you mentioned.

The way we proposed doing that was that this would be part of the quid pro quo that we would insist upon in negotiating a bilateral commercial agreement if the Congress were to give the President the authority to extend equal tariff agreement—

Mr. FINDLEY. But the President's East-West trade bill, as I read it, was not that explicit. It did list these as some of the items to be considered, but it was not binding language; it did not make these as absolute conditions of extending MFN, for example.

Mr. SOLOMON. We made it clear, I thought, in the accompanying message that this would be among our primary quid pro quo negotiating objectives. Obviously there would have to be a certain amount of flexibility from country to country.

Mr. FINDLEY. Is it wise to have any flexibility when we have so little in the way of bargaining tools that we can use in order to bring about changes within the economic practices of the totalitarian regime?

Mr. SOLOMON. It could be that you could achieve approximately 95 percent of your objectives in a particular situation but not 100 percent.

Mr. FINDLEY. Would you object to a revision in the language of that bill which would make that an essential provision, a *sine qua non*?

Mr. SOLOMON. I would not object, sir, if there were some flexibility—for example, on the third-country adjudication there was some flexibility as to which kind of disputes would enter into third-country adjudications. I think this could be usefully explored item by item and I would say that in general, since this was the intention of the administration, it might be feasible to accept this as a binding condition of the legislation; but I would like to go over this with my staff in detail and see if there would be one or two areas where we would want a little bit of flexibility in case we could get 90 or 95 percent of the objective, but not 100 percent.

Mr. FINDLEY. I think impartial, third-party arbitration, is a goal worth going after. I am glad to hear you make those comments.

The comment was made a few minutes ago to the effect that there is probably no AID program in being to countries that trade with North Vietnam.

Mr. SOLOMON. Could I reformulate that? There is no AID program in countries that trade with North Vietnam. The question in my mind was—there are a couple of exceptions in the trade with Cuba as permitted by the legislation.

Mr. FINDLEY. I acknowledge that, of course.

Mr. SOLOMON. But, after thinking it over in terms of trade with North Vietnam, there are no exceptions.

Mr. FINDLEY. Am I not correct that as late as December a considerable quantity of soybean oil was shipped to Poland under the donation authority of Public Law 480?

Mr. SOLOMON. As of December? It must have been authorized at a much earlier time and there was some delay in the shipment.

Mr. FINDLEY. I have not verified it. I heard over 2 million gallons of soybean oil were shipped to Poland during that month alone.

(The Department of State later supplied the following information:)

Shipments to Poland of soybean oil averaging 1.5 million gallons annually in recent years were made by voluntary agencies such as CARE, Church World Services, and American Relief for Poland. The prohibitions under PL 480 apply only to sales agreements under Title I and not to donations by voluntary agencies under Title II of the Act.

Mr. FINDLEY. As late as a year ago our Government saw fit to relieve Poland of the necessity—and we had the option to do so—of paying in dollars a debt of about \$17 million. In place of it, we elected to accept various programs which would utilize the zlotys to that same amount; but we could have asked for dollars. Could this not reasonably be interpreted as a form of aid to the Government of Poland?

Mr. SOLOMON. I don't think so, sir, for this reason: Those programs were long-held objectives of our Government to achieve other foreign

policy objectives and we were most anxious to get those programs funded, to get the Polish Government to agree that those programs—those were English-language programs and other kinds of programs—we wanted to carry those on in Poland.

Mr. FINDLEY. Isn't it unusual for us to be inaugurating aid-to-education programs in Poland? This may have been a long-held objective, but it certainly didn't come to the attention of Congress until quite recently.

Mr. SOLOMON. Well, I would have to ask the lawyers on that one; but it was not our view and it still would not be our view that this represented assistance to Poland.

Mr. FINDLEY. The point was also made that we have never engaged in price cutting in order to get business in the Communist bloc countries.

I recall very vividly the 1964 wheat deal and we made an unprecedented export subsidy on the Durum variety of wheat which came to a premium of somewhere around \$2 million because of the size of the transaction, a subsidy about 13 cents a bushel higher than that granted to any other trader on that variety up to that point.

Mr. SOLOMON. The reason we did that though, it did not result in a subsidy to the price to the Soviet Union. It only offset the higher costs of our mandatory shipping requirement, that it be shipped in American bottoms.

Mr. FINDLEY. I asked Secretary Freeman that very question in connection with that transaction in the hearings of the House Agriculture Committee, and he denied that the shipping costs had anything to do with the subsidy price on Durum or other varieties of wheat. So there is a basic contradiction here.

Thank you, Madam Chairman.

Mrs. KELLY. Congressman Taft.

Mr. TAFT. Secretary Bohlen, with regard to these various satellite Eastern European nations, I can understand your position as to the desirability of building independence from the Soviet domination. However, comparing their economies and society, and making the assumption that this is in the national interest of the United States to lead in this direction, how do we then jump to the conclusion of those who would advocate additional trade with Russia because somehow we will in this way help build a consumer-oriented economy in Russia?

Ambassador BOHLEN. Well, I must say personally I am not really convinced that we are going to go very far in building a consumer-oriented economy in Russia. I think our trade with Russia is really minute. I don't know whether I do have a difference with Mr. Solomon on this thing. I was thinking more that Russia doesn't produce enough of interest to the U.S. economy to offset what we could sell to them if we were to have a balance. You either have a balance or you are going into long-term financing and long-term credits, which is something we are not prepared to do. I don't think the trade with the Soviet Union is going to have much effect on the development of Soviet society.

Mr. TAFT. Our trade is so small we are not going to affect anything?

Ambassador BOHLEN. It is small and I think it is bound to be small unless we are prepared to go in for long-term credits; and I see no sign of that.

Mr. TAFT. Do you think the development of a consumer-oriented economy in Russia would be in the interests of world peace?

Ambassador BOHLEN. I suppose if you had that, but I see no chance of it. The Communist Party runs things in the Soviet Union and they allocate resources the way they feel and they have never shown any undue tendency toward favoring the consumer. They have concentrated much more on the elements that go to make up state power, whether military, economic, or otherwise.

Mr. TAFT. With regard to aid to these nations in their economies and otherwise, do you have any opinion, or perhaps Mr. Solomon might be more familiar with this, as to the participation by the United States in trade fairs?

Mr. SOLOMON. I am not sure I got the intent of the question, Congressman.

Mr. TAFT. The various trade fairs in which we have participated in one way or another. Do you believe this is of assistance to the nations where the trade fairs take place?

Mr. SOLOMON. It is of assistance to our exports. We have participated in a few trade fairs where we thought it was to our own advantage in terms of increasing our exports and in terms of some of the psychological implications as well.

Mr. TAFT. What about those psychological implications; that is what I am getting to. What possible psychological implication do we have in our participation in these trade fairs, say in Russia?

Mr. SOLOMON. Millions of people in those countries pass through those fairs and are impressed by the comparative state of U.S. technology, the sophistication of our goods; they are impressed with the evidence, by the evidence they see in those trade fairs, with the standard of living Americans enjoy. I think it is extremely useful for them to be aware of this.

Mr. TAFT. Who controls our participation in these fairs? Who makes the determination? Do you make it, or does Commerce make it, and who actually supervises it?

Mr. SOLOMON. There are two sets of fairs. One is controlled by Commerce. The other is controlled by USIA. They are both funded by the Congress; they both have small budgets from the Congress. They consult with the State Department as to where the fair should be held, but primarily the decision on the hard export promotional fair is in Commerce and the psychological is in USIA.

Mr. TAFT. Does USIA consult with the State Department on this?

Mr. SOLOMON. Yes.

Mr. TAFT. Is the State Department kept informed on the degree of our participation when we go into these areas?

Mr. SOLOMON. Yes. We work it out with USIA.

Mr. TAFT. Are you familiar with the fair last summer in Moscow in which we took part, with a commitment of \$241,000 of U.S. funds? It was on the Odehza International Clothing Exhibition.

Mr. SOLOMON. Yes, I have heard of it; the one in Leningrad.

Mr. TAFT. No, it was in Moscow.

Mr. SOLOMON. I have heard of it, yes. That was run by Commerce.

Mr. TAFT. It was run by Commerce, I will agree with you, and also as to the nature and scope of U.S. participation, the U.S. Embassy in Moscow had extremely sketchy information prior to its coming. Very

frankly I couldn't figure out what the impact of it was supposed to be because I don't think the impact was very well planned.

Mr. SOLOMON. I have no doubt that our participation in certain fairs is more effective than in others. It depends more on the quality of presentation and the way it has been organized.

Mr. TAFT. I would like to move to just one other subject and that is the licensing of know-how. No mention has been made of this. How does this fit into the overall picture? Economic engineering know-how, chemical plants?

Mr. SOLOMON. The Commerce Department has full control over technical data exported from the United States and individuals who wish to export apply and every license that is granted the Commerce Department publishes but does not identify the name of the company which is, of course, a long-standing practice. There is fully published every license on technical data that is granted.

Mr. BUCHANAN. Mr. Secretary, I must add on the Russian Trade Fair, we need to take a hard look at things like this. I don't know what the impression was on people in the Soviet Union, but as an American observer, I would come to the conclusion that every Communist government in Europe was more advanced than the United States if I had to base it on what I saw at the Trade Fair.

Gentlemen, you have said that you question the efficacy of withholding aid from those trading with North Vietnam since it has not had any effect on their policies. Did I understand this to be correct?

Ambassador BOHLEN. Yes; I think that is correct.

Mr. BUCHANAN. This occurs to me: If our aid is of so little value to these countries that the loss of such aid would not deter them from trading with what at least most Americans must consider our enemy, then, given our fiscal crisis, do we really have any business extending aid to such countries?

Mr. SOLOMON. The point is that there was very little trade to start with and the few countries that were affected, they chose in these cases, partially as a matter of sovereignty, to just do without the aid. Most of the developing countries do not trade with North Vietnam. They have no reason to. It is mostly the advanced countries of Western Europe that trade with North Vietnam—and Japan, which is a very minute amount. There is the combination of their inability or unwillingness to control their ships and, as well, their objection in principle to submitting to this kind of approach. It meant they would prefer to go ahead, but in practice the developing countries for whom we run our AID programs today do not trade with North Vietnam. They just don't happen to trade with North Vietnam.

Mr. BUCHANAN. I understand you are here to advocate that there be increased trade between the United States and Eastern Europe and the Soviet Union; is this correct?

Mr. SOLOMON. This is a presidential policy we believe in. You asked us to testify—

Mr. BUCHANAN. May I move on? Will you tell me, since it is not our policy to destroy the Government of North Vietnam and our response is only because of aggression, as I understand it, would your advocacy then include, at the cessation of these hostilities, trade with North Vietnam.

Ambassador BOHLEN. I think that is very difficult to answer because it would depend a great deal on what the state of relationships were in one way or another and I don't think that you can say offhand that you would, just because the hostilities ceased. Technically I think the hostilities have ceased with North Korea—

Mr. BUCHANAN. Would it include East Germany?

Ambassador BOHLEN. I don't think there is any prohibition on East Germany at the moment. I think what the attitude of the North Vietnamese Government would be when the hostilities cease, I think that would be a very controlling factor. I point to North Korea as an example where there is no trade though we are technically not at war with them.

Mr. SOLOMON. You are referring to our trade with North Vietnam and not third-country trade with North Vietnam once hostilities cease?

Mr. BUCHANAN. Precisely.

This has been hinted at before: As I understand it, the administration would encourage trade with such a nation as East Germany. We have discouraged trade with and participated in a boycott against the nation of Rhodesia. In the opinion of our Government, is the Government of Rhodesia more evil than the Government of East Germany?

Ambassador BOHLEN. The only reason we have taken the action with Rhodesia is because of the United Nations action.

Mr. SOLOMON. Because we recognize Great Britain as the legitimate government of the territory of Rhodesia.

Mrs. KELLY. Is the difference between the United States and the Western European policies on trade with the East driving a wedge in any way between the United States and our allies?

Ambassador BOHLEN. I don't think it has in actual practice. I think where this would sometimes come into conflict would be in the COCOM deliberations. There might be some reflection there. I don't think it has any effect on our relations with Europe. I think most of the European nations realize we are in a special situation because of the fighting in Vietnam which would naturally affect some of our ideas, and in the past we have been also because there is no European nation which is involved with us in the fighting in Vietnam. There are Australia, New Zealand, and so forth, from that area.

I would not say it would have an effect.

Mr. TAFT. As a matter of fact, they might welcome our staying out of the market competitively.

Ambassador BOHLEN. I was about to say that. I think there are certain limitations because of the nature of the American economic society in regard to what we can supply them and what they can supply us.

Mrs. KELLY. Since the Western European countries already have established extensive markets in Eastern Europe, is there room for us if we would reconsider our policy on the most-favored-nation issue?

Mr. SOLOMON. Yes. Trade is a very dynamic thing. If you look at the quality and the composition—and, of course, at the overall numbers—you will see that it has higher growth rates normally than GNP, and there are many products that we have—we are the largest exporters in the entire world, and there are many products that we

have, both in raw materials and manufactured goods, that Eastern European countries, just like other countries, would want.

For example, our biggest single export to the Soviet Union is inedible tallow, raw material for making soaps. We happen to be extremely competitive in this. Hides are a big factor. I think there is a considerable potential which is basically limited by what they can earn selling here plus whatever commercial term credits we would be able to give them under normal circumstances.

I think also they would be willing, in my view, to purchase more here than they sell here and divert earnings from Western Europe to some modest degree. I do not wish to have my position represented as being one of unrealistic projections here. I just say that there can be substantial and significant increases in the trade, although it will never be a big factor in our overall trade.

Mrs. KELLY. Thank you very much Mr. Ambassador, and Mr. Solomon.

The committee will now adjourn.

(Whereupon, at 12:10 p.m., the subcommittee was adjourned.)

## EAST-WEST TRADE

### 3. Department of the Treasury

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WEDNESDAY, FEBRUARY 21, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment, at 10:10 a.m. in room 2255, Rayburn House Office Building, the Honorable Edna F. Kelly (chairman of the subcommittee), presiding.

Mrs. KELLY. The subcommittee will please come to order.

We meet this morning to continue our hearings on East-West trade.

Yesterday we received testimony on this subject from two spokesmen for the Department of State—Ambassador Charles Bohlen, the new Deputy Under Secretary for Political Affairs; and Hon. Anthony Solomon, Assistant Secretary for Economic Affairs.

Today we shall hear from representatives of the Department of the Treasury. In this regard, I was sorry to learn that Under Secretary Joseph Barr, who was scheduled to be with us this morning, had to excuse himself from this commitment. He is represented here by the Honorable Fred B. Smith, the General Counsel of the Treasury, and Mr. Stanley Sommerfield, Chief Counsel, Treasury's Office of Foreign Assets Control.

Gentlemen, as you know, this subcommittee is taking an overall look at the structure of our laws relating to East-West transactions and how those laws are administered. According to the background summary prepared by the staff, there are at least six laws—ranging from the Trading With the Enemy Act to the Interest Equalization Tax Act—which are administered by the Department of the Treasury and which have a direct impact on East-West trade and related transactions.

We trust, therefore, that you will address yourself to these laws and how they are implemented by your Department.

Before we begin, I should like to mention that Mr. Smith's statement, together with some additional background material, was delivered to members of the subcommittee yesterday afternoon. The background material consists of some 14 typewritten pages of text and statistics. I presume, Mr. Smith, that you do not intend to read it in its entirety but that you will place it in the record of this hearing at the appropriate time.

With this introduction, we are ready to begin and we will hear from the Honorable Fred B. Smith, General Counsel of the Treasury.

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STATEMENT OF HON. FRED B. SMITH, GENERAL COUNSEL OF THE  
TREASURY

Mr. SMITH. Thank you, Madam Chairman. We do regret very much that Under Secretary Barr could not be here. We are spread pretty thin today in Treasury and he asks me to express his regrets.

I will read a portion of my statement, the first part of it, and then in terms of the programs which we administer, I will be happy to submit to questions.

I am here to describe the role of the Treasury Department with respect to East-West trade.

State Department witnesses already have discussed the overall foreign policy aspects of East-West trade. Treasury Department operations related to East-West trade are carefully attuned to these foreign policy considerations.

The Treasury has been given Presidential authority and delegated the function of administering controls over foreign assets and financial transactions where necessary to protect U.S. national security interests. Determinations with respect to types and amounts of goods which are strategic and the U.S. position in international consultations on the administration of international controls of such commodities are developed through interagency consultations in the Economic Defense Advisory Committee (EDAC).

Where questions of overall U.S. foreign policy arise in connection with the administering of these regulations, Treasury is largely governed by the views of the Department of State. In instances where any contemplated measures or actions would significantly affect the international financial position of the United States, the Treasury Department would play a major role in the determination of the policy which would apply to such matters.

As a prelude to the remainder of my statement, I believe it would be helpful if I were to indicate the extent of trade between NATO countries and the Communist countries—to give some idea of the economics affecting the U.S. role in East-West trade. The trend of trade between 1963 and 1966 indicates that the trade of NATO countries with the Communist countries has remained fairly constant—imports from Communist countries in 1966 were 3.4 percent of NATO countries total imports and exports to these same Communist countries were 3.7 percent of the total. NATO countries exports to Communist countries increased by 24.3 percent in value between 1965 and 1966, while their exports as a percentage of their total exports increased from 3.3 percent to 3.7 percent. Their imports from Communist countries increased 13.7 percent in value between 1965 and 1966 and their imports as a percentage of total imports increased from 3.3 percent to 3.4 percent.

U.S. exports to Communist countries in 1967 were about \$195 million, down from about \$198 million in 1966. Imports were about \$180 million in 1967, down from about \$182 million in 1966. In both years U.S. trade with Communist countries amounted to about 0.7 percent of total U.S. trade. These amounts indicate that these transactions are not among the most significant which affect the U.S. balance of

payments. While we must seek out every opportunity to improve our payments position, U.S. policies with respect to East-West trade cannot be motivated primarily by balance-of-payments considerations; it is important to maintain scrutiny over this trade for national security reasons.

In order to inform the committee of the details of the Treasury Department's role in East-West trade matters, technical descriptions have been prepared and are attached for the record. I shall summarize here the more significant aspects of the Treasury Department's activities in this important area.

The Treasury Department presently administers three sets of regulations which have a direct bearing on East-West trade and which were issued specifically to operate in this national security area. These are the Foreign Assets Control Regulations, the Cuban Assets Control Regulations, and the Transaction Control Regulations, all of which were issued under the authority of the act of October 6, 1917, as amended, 12 U.S.C. 95a.

The first two sets of regulations affect East-West trade by prohibiting, except pursuant to license, all commercial and financial transactions with Communist China, North Korea, North Vietnam, and Cuba or nationals thereof, and with respect to their products no matter where located. The Transaction Control Regulations deal with the purchase and sale by Americans and American-controlled firms of strategic commodities located outside the United States if the intention is ultimate delivery to East Europe or the U.S.S.R.

The Foreign Assets Control Regulations were issued on December 17, 1950, to implement the U.S. policy of a total embargo on all financial and commercial dealings with Communist China and North Korea, including both exports and imports, except pursuant to license and were amended on May 5, 1964, to include North Vietnam. The control of exports from the United States to these areas is actually exercised by the Department of Commerce which has primary responsibility for the movement of U.S.-origin goods under its export control regulations. Thus, the Treasury Department's Foreign Assets Control Regulations contain a general license permitting any export directly to those areas which are licensed by the Department of Commerce. The financial controls contained in Treasury Department regulations serve to supplement commerce controls over the goods. As a practical matter, under both Treasury and Commerce Department regulations only publications move between this country and Communist China and North Korea.

All imports from Communist China, North Korea, and North Vietnam are prohibited by the FAC regulations the provisions of which also extend to goods regarded as presumptively Chinese. Because of transshipment possibilities, these restrictions affect imports of certain commodities from East Europe and the U.S.S.R. such as certain ores and metals, textiles, and animal hair.

The Foreign Assets Control Regulations also extend to American-controlled firms abroad. It is the Government's policy not to license exports by such firms to Communist China, North Korea, or North Vietnam except for overriding foreign policy considerations. The decision on any case which arises in this area is made only in consultation with the State Department (and as appropriate other interested

agencies). The general policy followed is based on a 1965 interagency review, headed by the Attorney General, which concluded that the application of the Treasury regulations to U.S.-controlled firms abroad should be continued and that individual cases should be treated flexibly with exceptions to a general denial policy to be made only on the basis of foreign policy considerations. (This basic approach was the same that had been followed in prior years.) American-controlled firms abroad equally may not import prohibited merchandise.

The Cuban Assets Control Regulations, issued on July 8, 1963, are essentially parallel to the Foreign Assets Control Regulations. Thus, trade between the United States and Cuba is limited to exports of publications and gift shipments of foods, clothing, and medicines authorized by the Commerce Department and to licensed imports of publications. However, in the case of Cuba most American-controlled subsidiaries abroad have been authorized for foreign policy reasons to engage in trade with Cuba in non-U.S. origin goods. As a matter of fact such firms, except for exports of foods and medicines, are not known to be trading in any significant degree with Cuba. The authorization does not extend to U.S. citizens abroad who, as officers or directors, are in a position to control the operations of the foreign firm. Applications for licenses to authorize the participation of such American officers or directors in Cuban transactions are handled in the same manner and involve essentially the same considerations as applications relating to trade with Communist China, North Korea, or North Vietnam by American-controlled firms abroad, as I mentioned earlier.

The Transaction Control Regulations were issued on June 29, 1953, following policy consideration of the need, primarily in the inter-departmental Economic Defense Advisory Committee (commonly referred to as EDAC), as a part of the U.S. efforts in the internationally agreed control of strategic commodities. These controls are in addition to the controls exercised by the Commerce Department over direct exports from the United States to Eastern Europe and the U.S.S.R. The Transaction Control Regulations prohibit, unless licensed, any person within the United States, and foreign firms controlled by such persons, from purchasing, or selling, or arranging the purchase or sale of strategic commodities located outside the United States for ultimate delivery to Eastern Europe and the U.S.S.R. The coverage of these regulations is restricted to those commodities which are listed as strategic by international agreement through the Consultative Group Coordinating Committee (generally known as COCOM). Treasury decisions on requests for licenses are in conformance with the policies reached in the EDAC. A summary of Transaction Control Regulations operations during the past 5 years is included in the technical descriptions which were attached to my statement.

In 1954, at EDAC's request, Foreign Assets Control Regulations and Transaction Control Regulations were interpreted to apply to patent and technical data licensing agreements whereby the foreign licensees agreed not to ship anything produced abroad with American know-how to Communist China or North Korea in the absence of a Treasury license. Similarly, the foreign licensees agreed not to ship anything on the internationally agreed strategic lists to Eastern Eu-

rope or the U.S.S.R. or North Vietnam in the absence of a Treasury license. This control was transferred to the Commerce Department on April 1, 1964. (Under present Commerce regulations North Vietnam is grouped with Communist China and North Korea.)

In addition to the foregoing, Treasury, through the Bureau of Customs and the Internal Revenue Service, administers other laws and regulations of secondary importance to East-West trade.

The major Customs involvement is to assist other U.S. agencies and Treasury's Office of Foreign Assets Control who have the prime responsibilities for carrying out the laws and regulations which are applicable to East-West trade. Customs assistance comes through the enforcement of import restrictions, statutory rates of duty, and export control laws. Of less importance to East-West trade are Customs' regular responsibilities for collection of import duties and dumping duties, smuggling control, and restrictions on imports.

Internal Revenue, through the Interest Equalization Tax (IET) is only involved in trade, including East-West trade, when Americans finance exports through the receipt of foreign debt obligations of 1 year or more. A series of exclusions is provided to minimize interference with our general export objectives. The IET was principally designed not to deal with trade, but to curtail the outflow of portfolio funds seeking higher rates of interest abroad.

(Mr. Smith's background material follows:)

#### THE ROLE OF THE TREASURY DEPARTMENT IN EAST-WEST TRADE

The Treasury Department presently administers three sets of Regulations which have a direct bearing on East-West trade. These are (1) The Foreign Assets Control Regulations, 31 CFR, Part 500, (2) The Cuban Assets Control Regulations, 31 CFR, Part 515, (3) The Transaction Control Regulations, 31 CFR, Part 505, all of which were issued under the authority of Section 5(b) of the Trading with the Enemy Act, as amended, (50 U.S.C. App. 5(b)), and Executive Order 9193. Section 5(b) of the Trading with the Enemy Act in effect authorizes the President or his delegate, during time of war or national emergency, to investigate, regulate, or prohibit all commercial and financial transactions by persons subject to the jurisdiction of the United States with foreign countries or the nationals of such countries or with respect to any property subject to the jurisdiction of the United States in which such countries or their nationals have any interest. Executive Order 9193 is the delegation of this authority to the Secretary of the Treasury. The national emergency is that declared by the President on December 16, 1950 at the time of the Communist Chinese aggression in Korea.

It should be noted that Yugoslavia is not treated under any of the above Regulations as part of the Sino-Soviet Bloc.

#### (1) FOREIGN ASSETS CONTROL REGULATIONS

##### *A. General*

The Foreign Assets Control Regulations, issued on December 17, 1950, and amended on May 5, 1964 to cover North Viet-Nam, implement the United States policy of total embargo on all financial and commercial dealings by persons subject to the jurisdiction of the United States with Communist China, North Korea and North Viet-Nam.

##### *B. Exports from the United States*

There is dual jurisdiction in the Treasury and Commerce Departments over exports from the United States to Communist China, North Korea, or North Viet-Nam. To avoid overlapping, the Treasury Department has issued a General License (Section 500.533 of the Regulations) which authorizes all transactions incident to any export directly from the United States to those areas provided that the export has been licensed by the Commerce Department. It is our understanding that the Commerce Department licenses only publications, the personal effects of departing travelers, and dead bodies to be exported to those destinations.

### C. Imports into the United States

Section 500.204 of the Regulations prohibits all unlicensed imports into the United States of all Communist Chinese, North Korean and North Viet-Nameese merchandise. Processed forms of such merchandise, as distinct from manufactured forms, are also subject to this prohibition, no matter in what country the processing takes place. The import prohibition of the Regulations extends to goods regarded as presumptively Chinese, *i.e.*, goods of traditional Chinese-type and goods which had principally been imported into the United States from mainland China before the effective date of the Regulations, no matter in what country they may be located. It also extends to certain other commodities which have been located in Eastern Europe and the U.S.S.R. (and Hong Kong and Macao) since such countries have been regarded as likely channels through which the Communist Chinese would try to sell such items to the United States. Publications, including films, affected by the above prohibitions are licensed for importation. So also are cultural and educational materials valued at not more than \$1,000, provided they are of a type for which there is no commercial market. Otherwise affected goods are licensed for importation only on presentation of satisfactory evidence that there has been no Communist Chinese or North Korean interest in the goods since December 17, 1950, or North Viet-Nameese interest since May 5, 1964.

Insofar as trade with the U.S.S.R. and the East European Communist countries is concerned, this prohibition of the Regulations has principally affected textiles, certain metals and minerals and animal hair. Some of these commodities have been susceptible to licensing, *e.g.*, cashmere and camel hair on the basis of physical identification; others, such as antimony, tin, and tungsten, have not.

It should be noted that not only are unlicensed imports into the United States of the above-mentioned types of commodities prohibited, but also all other dealings in any such commodities which are located abroad.

### D. Exports and Imports by American-Controlled Firms Abroad

Under the Foreign Assets Control Regulations, foreign firms which are controlled by Americans, *e.g.*, branches, subsidiaries, agents, etc., are prohibited, as are the parent firms, from exporting to Communist China, North Korea and North Viet-Nam, regardless of the origin of the goods involved and whether or not the goods are strategic. It is not the Treasury Department's general policy to license such exports except for over-riding foreign policy reasons. The decision on any case which arises in this area is made only in consultation with State (and other interested agencies as appropriate). The general policy followed is based on a 1965 inter-agency review, headed by the Attorney General, which concluded that the application of the Regulations to U.S.-controlled firms abroad should be continued and that individual cases should be treated flexibly with exceptions to a general denial policy made on basis of foreign policy considerations. (This basic approach was the same that had been followed in prior years.) Only four exceptions have been made: in earlier years, one for wood pulp and one for second-hand diesel locomotives, and in neither case was the transaction consummated; more recently, one for spare parts for tabulating equipment and one for truck engine valves.

The prohibitions on importations of (and other dealings in) Communist Chinese, North Korean and North Viet-Nameese merchandise and the other types of merchandise described in C above are applicable to foreign firms which are controlled by Americans.

## (2) CUBAN ASSETS CONTROL REGULATIONS

The Cuban Assets Control Regulations, issued on July 8, 1963, replace the previously existing Cuban Import Regulations. (In addition to the authority of Section 5(b) of the Trading with the Enemy Act, these Regulations are also issued under Proclamation 3447, which was issued under Section 620 (a), P.L. 87-195.) The Import Regulations, issued February 7, 1962, prohibited imports into the United States of all goods of Cuban origin and, as amended on March 23, 1962, also prohibited imports of goods (*e.g.*, cigars) made in third countries with Cuban components.

Essentially, the Cuban Assets Control Regulations are parallel to the Foreign Assets Control Regulations in that they prohibit all unlicensed financial and commercial transactions by Americans with Cuba or nationals thereof. Exports to Cuba thus are limited to those authorized by the Commerce Department. It is our understanding that, in addition to publications, the Commerce Department li-

censes gift shipments of food, medicines, and clothing to be exported to that destination. With respect to imports, the Cuban Assets Control Regulations differ from the Foreign Assets Control Regulations in that there is no list of "presumptively Cuban" goods as there is in the case of China. This is because the nature of our past trade with Cuba was such that imports of goods of Cuban origin could be controlled without a list of this type. Further, there is no manufacturing/processing distinction in the Cuban Assets Control Regulations. The import prohibitions here extend to all commodities containing Cuban components. Publications are licensed for importation as they are from the Far East Communist areas.

The Cuban Regulations contain a general license (Section 515.541) under which American subsidiaries abroad (other than banks) are authorized to sell non-United States origin goods to Cuba and to buy (or otherwise deal in) goods from Cuba. This general license was issued at the State Department's request for foreign policy reasons and on the understanding that American subsidiaries abroad were on a voluntary basis abstaining from trade with Cuba. (To the best of our knowledge except for non-objectionable shipments of foods and medicines no significant amount of trade has taken place.) The export of strategic goods to Cuba is not excepted from the privileges of the general license because the State Department felt to do so might jeopardize the informal cooperation we were receiving from our allies in controlling shipments of strategic goods to Cuba. (For the same reason, sales to Cuba are not affected by the below-described Transaction Control Regulations.) The authorization in the general license does not extend to U.S. citizens who, as officers or directors, are in a position to control the operations of the foreign firm. Applications for licenses to authorize the participation of American officers or directors in Cuban transactions are handled in the same manner and involve essentially the same considerations as applications relating to trade with China by American controlled firms abroad. Six such applications involving exports to Cuba have been granted: three for foods, medicines and medical supplies; one for valves for use in a water purification plant; one for trucks; and one for agricultural machinery (power take-off units).

### (3) TRANSACTION CONTROL REGULATIONS

#### A. General

The Transaction Control Regulations were issued on June 29, 1953, at the request of the Economic Defense Advisory Committee (EDAC) as a part of the United States efforts in the internationally agreed control of strategic commodities. These Regulations are in addition to the controls exercised by the Commerce Department over direct exports from the United States to the Soviet Bloc. They prohibit, unless licensed, any person within the United States from purchasing or selling or arranging the purchase or sale of strategic commodities located outside the United States for ultimate delivery to the Eastern European countries or the U.S.S.R. The prohibitions apply not only to domestic American corporations but also to their foreign subsidiaries and to other foreign firms owned or controlled by persons normally resident in the United States. The Regulations were intended to fill a gap in United States controls under which traders in the United States, without violating any United States regulation, could arrange transactions whereby strategic goods would reach Eastern Europe and the U.S.S.R. either in contravention of other countries' security controls, through loopholes in the existing control system, or via countries without adequate controls.

#### B. Coverage

The coverage of the Transaction Control Regulations is restricted to those commodities which are internationally agreed to be strategic (the COCOM list) and as far as United States strategic lists are concerned, these commodities may be identified as:

(a) those which appear on Commerce Department's Positive List of Controlled Commodities and which are identified on that List by the symbol "A" in the column headed "Commodity Lists" (15 CFR 399); (b) those commodities which appear on the Munition List issued by the State Department's Munitions List Board (22 CFR, Part 121-128); and (c) those commodities which appear on the Atomic Energy Commission's List (10 CFR, Part 30, 40, 50 and 70).

On the recommendation of the House Select Committee on Export Control (the Kitchin Committee) in 1962, we conducted a survey to ascertain whether

shipments by American subsidiaries abroad to the Soviet Bloc of strategic commodities under United States unilateral control, but not under COCOM embargo and thus not subject to the Transaction Control Regulations, were significant enough to make extension of the Treasury Department Regulations appear desirable. Of the over 1,000 replies we received it was determined that only nine of these firms engaged in such trade. The total of this trade in 1961 and 1962 was about \$13 million, of which \$12 million was in the form of grain-oriented silicon steel sheets used in electronic transformers. In view of this substantial evidence that trade by American subsidiaries abroad with the Soviet Bloc in non-controlled strategic commodities was insignificant, the Transaction Control Regulations were not extended to include such commodities.

### *C. Statistics*

For the period from January 1, 1963, through December 31, 1967, 311 applications for licenses under the Transaction Control Regulations were filed, of which 227 were approved. The principal types of commodities involved were communications equipment, electronic equipment, computers and other data processing equipment, and metals and minerals. (See attachment.)

### *D. Licensing Procedure*

The substance of the application is forwarded to EDAC Working Group I for advice. That committee arranges for a technical evaluation, and then gives the case policy review. The Treasury Department does not attend the technical group's meeting. At the policy review meeting, this Department's role is confined to:

- (a) Clarifying any questions the Committee may have as to the precise impact of Treasury Department controls on the proposed transaction;
- (b) Providing available information as to the applicant, other parties to the transaction, etc.;
- (c) Obtaining from the applicant any further data the Committee may desire;
- (d) Otherwise attempting to expedite for the applicant's benefit the Committee's consideration of the case; and
- (e) Asking questions to obtain clarification of statements by Committee members concerning the case.

The Treasury Department consistently does not vote on cases before the Committee, and, in fact, is not a member of Working Group I. When the Committee's advice is received, this Department then either approves or denies the application in accordance with the Committee's recommendation.

## FINANCIAL ASPECTS OF TREASURY DEPARTMENT REGULATIONS ISSUED UNDER THE TRADING WITH THE ENEMY ACT

### (1) FOREIGN ASSETS CONTROL REGULATIONS

All unlicensed remittances to, or for the benefit of, Communist China, North Korea, or North Viet-Nam and their nationals, are prohibited. Remittances (other than those required to be made into blocked bank accounts in the United States) are licensed only for the importation of publications by research and educational organizations and in very limited amounts for the living expenses in (and travel out of) Communist China of Americans and of non-Chinese refugees—e.g., White Russians. (No requests for such remittances to North Korea or North Viet-Nam have been received.) Use of its blocked funds by Communist China is prohibited, except for payments within the U.S. such as taxes and service charges. (There are no blocked assets owned by North Korea or North Viet-Nam.)

### (2) CUBAN ASSETS CONTROL REGULATIONS

As in the case of Communist China, North Korea and North Viet-Nam, all unlicensed remittances are prohibited. Remittances to Cuba are licensed for the importation of publications by research and educational organizations and for the living expenses in (and travel out of) Cuba of Americans. However, remittances to non-Americans are not licensed. Cuban assets in the United States are blocked and can be used only to the same limited extent as can the blocked Communist Chinese assets.

## (3) TRANSACTION CONTROL REGULATIONS

The sole purpose of these Regulations is to prevent Americans and American controlled firms from supplying, or participating in the supplying to the European Soviet Bloc of strategic goods located outside of the United States. Remittances to and from the European Soviet Bloc are freely permitted unless they are being made in connection with a prohibited transaction.

NOTE: Under Treasury Department Circular No. 655, the delivery of U.S. Government checks to payees in certain Sino-Soviet Bloc countries is prohibited. This Circular was issued under Public Law 828, approved October 9, 1940, which provides that such prohibitions be imposed if there is not a reasonable assurance that the payees will receive the checks and be able to negotiate them for full value. At the present time, the countries to which the prohibitions extend are Albania, Communist China, Cuba, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Union of Soviet Socialist Republics, the Russian Zone of Occupation of Germany, and the Russian Sector of Occupation of Berlin, Germany.

*Survey of transaction control license applications, 1963-67*

1963:

Number of applications received-----	50
Total approved-----	34
Total denied-----	2
Partial approvals or denials-----	3
Other (includes withdrawals, no action taken, cancellations)-----	11
Approximate value of goods included in applications received:	
Total-----	\$7,843,637.00
Approved-----	6,337,412.00
Denied-----	39,900.00
Other-----	1,466,324.00

1964:

Number of applications received-----	44
Total approved-----	24
Total denied-----	2
Other-----	18
Approximate value of goods included in applications received:	
Total-----	\$4,996,177.00
Approved-----	4,047,510.00
Denied-----	90,100.00
Other-----	858,567.00

1965:

Number of applications received-----	58
Total approved-----	46
Total denied-----	1
Other-----	11
Approximate value of goods included in applications received:	
Total-----	\$14,010,732.00
Approved-----	11,619,095.00
Denied-----	645,500.00
Other-----	1,000,318.00

*Survey of transaction control license applications, 1963-67—Continued*

1966:

Number of applications received.....	40
Total approved.....	30
Total denied.....	1
Other .....	9
Approximate value of goods included in applications received:	
Total .....	\$14,341,033.00
Approved .....	10,692,458.00
Denied .....	4,612.00
Other .....	3,643,963.00

1967:

Number of applications received.....	119
Total approved.....	93
Total denied.....	1
Pending.....	13
Other .....	12
Approximate value of goods included in applications received:	
Total .....	\$5,818,181.23
Approved .....	5,576,782.23
Denied .....	19,000.00
Other .....	222,399.00

Summary 1963-67:

Applications received.....	311
Total approved.....	227
Total denied.....	7
Partial approvals or denials.....	3
Other .....	74
Approximate value of goods included in applications received:	
Total .....	\$47,009,761.00
Approved .....	38,273,259.00
Denied .....	799,112.00
Other .....	7,191,571.00

Principal types of commodities involved:

- (1) Computers and other data processing equipment.
- (2) Communications equipment.
- (3) Metals and minerals.
- (4) Electronic equipment.

*Other.*—Withdrawals occurred when the applicants decided not to proceed with the transactions under consideration. No action was taken on applications when the merchandise involved proved not to be subject to the Regulations, when the merchandise was being sent to a country not covered by the restrictions of the Regulations, or when the merchandise was to be used for exhibition purposes only. Cancellations occurred when the applicants failed to provide requested information.

LAWS ADMINISTERED BY THE BUREAU OF CUSTOMS, FEBRUARY 1968

The Bureau of Customs is responsible primarily for administering and enforcing the customs and related laws and regulations. Customs also assists other agencies in administering and enforcing their laws and regulations.

The following listing of laws or regulations administered and enforced by customs is divided into two categories. The first grouping lists provisions which specifically restrict trade with Communist countries or areas. The second group contains examples of laws or regulations which generally impose restrictions on trade but not in terms of trade with Communist countries or areas. The Part B of the second group does not purport to include all the laws that customs assists in enforcing on behalf of other agencies.

# I. LAWS OR REGULATIONS SPECIFICALLY RESTRICTING TRADE WITH COMMUNIST COUNTRIES

## *Foreign and Cuban Assets Control Regulations (31 CFR 500.101 and 515.01)*

Customs assists in enforcement of regulations of Foreign and Cuban Assets Control relating to import restrictions on merchandise of Communist Chinese, North Korean and Cuban origin and certain other merchandise.

## *19 U.S.C. 1202, General Headnote 3.(d)*

This provision sets forth the statutory rates of duty for products of Communist countries as the rates shown in the column numbered 2 in the Tariff Schedules of the United States.

## *19 U.S.C. 1202, Schedule 1, Part 5, Subpart B, Headnote 4*

This provision prohibits the importation of certain furs from Russia or Communist China.

## *Export Control (50 U.S.C. App. 2021-2032)*

Customs exercises important functions in assisting the Department of Commerce in the enforcement of the export control laws and regulations.

# II. A OTHER LAWS ADMINISTERED BY CUSTOMS

## *Tariff Act of 1930, as amended (19 U.S.C. 1202, et seq.)*

This is the basic law providing for the classification of merchandise; the ascertainment, assessment, and collection of import duties; procedures for entry of goods into the United States; and for certain restrictions on imports.

## *Foreign Trade Zones Act (19 U.S.C. 81a-81u)*

This Act provides for establishment and operation of Foreign Trade Zones and procedures for admitting foreign and domestic merchandise into such zones and for transferring such merchandise out of them.

## *Anti-Smuggling Act (19 U.S.C. 1701-1711)*

This Act provides certain special enforcement authority to cope with smuggling.

## *Antidumping Act, 1921, as amended (19 U.S.C. 160-173)*

This Act provides procedures for determining whether foreign merchandise is being dumped in the United States, i.e., being sold at less than fair value to the injury of American industry, and provides for assessment and collection of dumping duties in appropriate cases.

## *Miscellaneous statutes set forth in Title 19, U.S.C.*

Customs also exercises functions under other provisions of law that are not part of the Tariff Act or the other acts already mentioned, but which are also codified in Title 19, U.S.C., such as 19 U.S.C. 1 and 2 (Organization of customs service, arrangement and location of districts), 19 U.S.C. 68 (Enforcement of laws in Guam and the Virgin Islands and along Canadian and Mexican Borders; erection of buildings), 19 U.S.C. 267 (overtime compensation of customs officers) and many others.

## *Narcotic Control Act of 1956 (Public Law 728, 84th Congress, codified in Titles 18, 21 and 26, U.S.C.)*

Customs administers and enforces this Act as it relates generally to smuggling of narcotics (cooperation with Bureau of Narcotics is close).

## *Quotas (usually under Presidential proclamation)*

Customs administers quotas of various kinds on such products as cattle, cream, milk, butter substitutes, fish, potatoes, stainless steel table flatware, brooms, cotton, certain textile products, peanuts, wheat and wheat flour, coffee, and Philippine cordage, buttons, cigars, coconut oil and tobacco.

## *Navigation Laws (Codified in Title 46, U.S.C.)*

Customs exercises functions provided for in the navigation laws (codified in Title 46) as transferred to the Bureau by section 102 of Reorganization Plan No. 3 of 1946 (3 CFR, 1946 Supp. C.IV) pertaining to the entry and clearance of vessels, the collection of tonnage duties, and the use of vessels in domestic trades, including fisheries.

*Internal Revenue Code (Title 26 U.S.C.)*

Customs collects certain import taxes imposed by the Internal Revenue Code on such products as sugar (chapter 37, I.R.C.), oleomargarine (chapter 38, I.R.C.), and alcohol and tobacco products (chapters 51 and 52, I.R.C.).

*Neutrality Act, as amended (22 U.S.C. 401, et seq.)*

Customs assists in enforcing controls on exportation of arms and munitions of war.

*Criminal Code (18 U.S.C., Chapter 27)*

Customs enforces a number of miscellaneous criminal laws which are codified in 18 U.S.C.

**I.L.E. CUSTOMS ALSO ASSISTS IN ENFORCING IMPORTATION OR EXPORTATION ASPECTS OF THE FOLLOWING LAWS OR REGULATIONS (PRIMARY AGENCY INDICATED IN PARENTHESES)**

Atomic Energy Commission Regulations (10 CFR 30, 40, and 70) (AEC).  
 Immigration and Nationality Act (8 U.S.C.) (INS).  
 Food, Drugs and Cosmetics (21 U.S.C. 381) (HEW).  
 Insecticides, Fungicides, and Rodenticides (7 U.S.C. 135h) (Agriculture).  
 Hazardous Substances (15 U.S.C. Chapter 30) (HEW).  
 Poultry Products Inspection Act (21 U.S.C. Chapter 10) (Agriculture).  
 Foot-and-Mouth Disease controls (21 U.S.C. 113a) (Agriculture).  
 Meat and Meat Products (9 CFR Part 327) (Agriculture).  
 Federal Seed Act Regulations (7 CFR Part 201) (Agriculture).  
 Importation of Teas (21 CFR Part 281) (HEW).  
 Importation of Psittacine birds, monkeys, dogs, cats, leather brushes, etiological agents and vectors, and dead bodies (42 CFR 71.151-71.157) (HEW).  
 Importation and Exportation of Gold (31 CFR Part 54) (Mint; Office of Domestic Gold and Silver Operations, Treasury).  
 Trade-Mark Act (15 U.S.C. 1124) (Commerce).  
 Copyright Act (17 U.S.C. 105-109) (Library of Congress).  
 Foreign Agents Registration Act (22 U.S.C. 611) (Justice).  
 Wild Animals, Birds, Fish (18 U.S.C. 42; 50 CFR Part 13) (Interior).  
 Federal Alcohol Administration Act (labelling) (27 U.S.C. 201-212) (ATU).  
 Deposit or Refuse in Navigable Waters and Oil Pollution of Coastal Waters (33 U.S.C., chapter 9) (Army).  
 Wool Products Labelling Act (15 U.S.C. 68 et seq.) (FTC).  
 Fur Products Labelling Act (15 U.S.C. 69 et seq.) (FTC).  
 Textile Fiber Products Identification Act (15 U.S.C. 70-70k) (FTC).  
 Federal Import Milk Act (21 U.S.C. 141-149) (HEW).  
 Viruses, Serums, etc. (42 U.S.C. 262) (HEW).  
 Adult Honeybees (7 U.S.C. 281) (Agriculture).  
 Foreign Excess Property (40 U.S.C. 512) (Commerce).  
 Flammable Fabrics Act (15 U.S.C. 1191-1200) (FTC).  
 Counterfeit Coins, etc. (18 U.S.C., chapter 25) (Secret Service).

Mrs. KELLY. Thank you so much, Mr. Smith.

On page 5 you state that in administering the embargo on all U.S. exports to Red China, North Korea and North Vietnam, you delegate your authority to the Commerce Department.

Mr. SMITH. Yes.

Mrs. KELLY. But you don't mention anything about the imports. Who controls the imports from those countries?

Mr. SMITH. We do, the Treasury's foreign assets control.

Mrs. KELLY. Do you delegate any of that authority, too?

Mrs. SMITH. I don't think the word "delegate" is correct. The Commerce Department under the Export Control Act already has the authority to regulate exports. We have the authority under the Trading With The Enemy Act.

What we did was, in order that there not be duplicate administration and having to go two places to get a license, we just said with

respect to exports that anything the Commerce Department licensed under the Export Control Act was licensed under our regulations.

Now, Commerce doesn't have authority to regulate imports. This is why the import side of it is regulated by Treasury's foreign assets control under the authority of the Trading With The Enemy Act.

Mrs. KELLY. In that regard, let me ask how do the American-controlled firms know which items are on the COCOM list? Assistant Secretary of State Solomon testified yesterday that these lists are confidential. How can you hold the U.S. firms responsible for controlling exports of items when they don't know what they are?

Mr. SMITH. On our export controls, Commerce has this positive list, which are the items the United States regards as strategic. It is more comprehensive than the COCOM list.

Those positive list items, which have an A in the schedule, published by Commerce are virtually the same as the COCOM list. In other words, the Commerce Department's list of items, their A items, is the same as the COCOM list. However, the positive list also has additional items which under the export control regulations of Commerce may not be exported. These items are not subject to the Treasury's transaction control regulations.

Mrs. KELLY. Mr. Sommerfield, would you like to speak to that?

#### STATEMENT OF STANLEY SOMMERFIELD, CHIEF COUNSEL, OFFICE OF FOREIGN ASSETS CONTROL, DEPARTMENT OF THE TREASURY

Mr. SOMMERFIELD. If we are talking about the strategic control of goods to Eastern Europe and Russia, that is under the transaction control regulations. Those regulations prohibit Americans from shipping anything specifically listed in certain lists to Eastern Europe.

Now, the lists of goods are incorporated by reference from the Commerce Department's comprehensive export schedule, which is a very complete listing of practically all goods ever exported from the United States. Those items on the Commerce positive list which have an A after them in the special provisions column are those which are subject to our Treasury embargo on strategic goods going to Eastern Europe. Thus, all a businessman needs to do is to look at the Commerce Department's positive list to see if the commodity in which he is interested has an A in the special provisions column. If it does have such an A, he knows automatically that it is prohibited for him to ship that item from abroad to Eastern Europe without a Treasury license. All he has to do is look at the list.

Mrs. KELLY. I was speaking of the confidential list.

Mr. SMITH. The chairman wants to know what is the COCOM list.

Mr. SOMMERFIELD. In practical terms the COCOM list is identical with the A part of the Commerce Department list.

Mr. SMITH. That is what I was trying to say. It is practically identical with the positive lists of A items of the Commerce Department.

Mr. SOMMERFIELD. We don't ask an American to consult the COCOM list. We only ask him to consult the Commerce list and see which items have an A. The Treasury transaction control extends to these commodities only.

Mrs. KELLY. Are there any strategic lists which are secret?

Mr. SOMMERFIELD. No, the U.S. Treasury has no secret list. U.S. firms are obligated or required, Madam Chairman, only to consult the

published Commerce Department list which appears in the Federal Register.

Mrs. KELLY. On page 5, you refer to Treasury licensing of exports of strategic commodities.

Mr. SOMMERFIELD. We do.

Mrs. KELLY. Are such licenses being issued today?

Mr. SOMMERFIELD. Yes, we do from time to time issue such licenses.

Mrs. KELLY. How often do you issue them?

Mr. SOMMERFIELD. The technical statement gave you a listing of the licenses issued for the last 5 years. The current rate of applications for strategic goods from foreign countries originating with American-controlled firms runs about a hundred or so a year.

Mrs. KELLY. For what reasons are the licenses issued?

Mr. SOMMERFIELD. The internationally agreed embargo has provision in the existing policies for exceptions to be made in appropriate cases. For example, you might say that a particular commodity would be dangerous to our national interest if it went in large volume to Eastern Europe, but one or two of them might not be of the slightest importance. So there are provisions for small quantities to go.

There are de minimis exceptions, small-volume shipments. Even on the large items, if you are satisfied that the item will be used for peaceful purposes and not for military purposes, you may make an exception to the embargo in a particular case.

Mrs. KELLY. Mr. Smith, did you want to speak to that?

Mr. SMITH. I wanted to point out that we regard a larger number of items as strategic—when I say “we” I mean the U.S. Government and the Commerce Department in its administration of the export control—than are agreed to be strategic by the International Consultative Group.

In terms of what the Commerce Department will license to be exported from the United States, it is a more limited group of items than are applicable to U.S.-controlled firms abroad. In other words, the Transaction Control Regulations which relate to goods abroad apply only to the internationally agreed strategic lists, the COCOM list, or this positive list of A items, plus the AEC list and the munitions list.

Mr. HAYS. I was curious about a statement made there. It says if you are satisfied they are going to use these things for peaceful purposes. How can you be satisfied? Once they get them, how do you know what they use them for? I am not against East-West trade per se but that statement stood out as one that didn't mean very much.

Mr. SMITH. It depends, of course, on the nature of the item, in part. Let us take, for instance, electronic equipment. You may have absolute knowledge of where it is going to be fixed and placed and utilized by the importer. It is a matter of judgment in individual cases. EDAC considers these pretty much on a case-by-case basis.

Mrs. KELLY. On page 5 you also state that the Treasury controls financial transactions with Red China, North Korea, North Vietnam, and Cuba. How do you control these financial transactions?

Mr. SMITH. They are flatly prohibited unless licensed by the Treasury Department.

Mrs. KELLY. How can you control financial transfers if they are channeled, for example, through Western Europe?

Mr. SMITH. Almost every financial transaction goes through a U.S. bank, one way or another. It is through the banks and financial in-

stitutions which conduct these transactions, that we have the control.

Mrs. KELLY. Do you feel that you have adequate control over these transactions to assure compliance with the law?

Mr. SMITH. Yes; I feel we do.

Mrs. KELLY. You are speaking of American-controlled firms; is that correct? Are you referring to firms owned 51 percent by Americans?

Mr. SMITH. As far as Communist China, North Korea, and Vietnam are concerned under Foreign Assets Control Regulations, they prohibit American-controlled companies or controlled subsidiaries wherever they may be from engaging in any trade transactions. They may be domestic firms or foreign-controlled firms. They may be American citizens here or abroad. It is a virtual complete embargo as far as those three countries are concerned.

Mrs. KELLY. You are speaking about American firms abroad, or both?

Mr. SMITH. American firms abroad and American firms at home; both of them.

Mrs. KELLY. Do any firms located abroad ever ignore the embargo?

Mr. SMITH. There have been cases of infrequent violation but the penalties are very severe. It is 10 years' imprisonment and \$10,000 fine.

Mr. FRELINGHUYSEN. How can you tell where a particular commodity originates? You can't really tell unless it is labeled on a box whether it comes from Red China or North Korea. I remember in Hong Kong a shop was disappointed when I refused to buy something because they had no certificate saying it was made in Hong Kong. They said if I bought the same thing in Singapore nobody would raise the question as to whether it was manufactured there. I suppose that is true. There is the possibility an importer could utilize another country to buy a commodity that originated from China.

Mr. SMITH. Undoubtedly there are possibilities for evasion but we have gotten at this in two ways. There is a list of items which are presumptively Chinese.

Mr. FRELINGHUYSEN. I don't see why human hair is presumptively Chinese, yet I believe that is one of the items.

Mr. SMITH. I believe animal hair from Eastern Europe is one we listed, as well as Asiatic human hair.

Mr. FRELINGHUYSEN. I would think it would be even worse to presume animals are presumptively Chinese.

Mr. SMITH. Prior to Korea the Chinese were principal suppliers of bristles for paintbrushes. There is something special about the bristles from Chinese hogs.

There is a list of items, such as dyed bristles, where China was the principal supplier, historically, which we presume to be Chinese. They are not allowed in from any place.

Mr. FRELINGHUYSEN. You mentioned textiles and animal hair and certain ores and metals, at the bottom of page 5. What ores and what metals are considered conclusively Chinese?

Mr. SMITH. It is not conclusively, because we allow them to prove that they are not Chinese but they have to have good documentation. They are presumptively Chinese unless they can prove to the contrary.

The ores and metals listed are antimony, bismuth, mercury, molybdenum, tin, and tungsten from Eastern Europe, Hong Kong, or Macao.

Mr. FRELINGHUYSEN. And we assume they come from China unless they prove otherwise?

Mr. SMITH. Yes. There is another list of items where China was a significant but not the principal supplier or exporter of these commodities. Then if it comes from Hong Kong, Macao, or Eastern Europe we apply the same tests but if it comes from elsewhere around the world we don't. They were a big supplier but not the principal one and you can't apply that rule all over but we do apply it to exports of those items from that area.

Mr. FRELINGHUYSEN. They are automatically suspect if they come from Hong Kong or Macao?

Mr. SMITH. Yes.

Mr. HAYS. I had an entirely different experience in Hong Kong. They offered to provide a certificate for anything I would buy.

Mr. FRELINGHUYSEN. You probably went to a different place.

Mr. HAYS. The point I am making is that you really don't have any control over this at all. What is to prevent some American firm from sending an order, we will say, to West Germany and the West Germans simply either reboxing it or relabeling it and sending it on wherever they want to? So they pay you through a Swiss bank or some bank in Germany. How do you know anything about this? The fact is, you don't, do you?

Mr. SMITH. I wouldn't agree with that. Obviously there are opportunities for evasion. But you would be amazed at what our customs experts can do in determining where something came from. Take hog bristles, for instance.

Mr. HAYS. I am constantly amazed at how little your customs experts do know.

Mr. FRELINGHUYSEN. How can you tell where a hog bristle comes from, except from a hog?

Mr. SMITH. Stanley, you know more about that than I do.

Mr. SOMMERFELD. Actually, we prohibit importation of all Asiatic hog bristles and all dyed bristles. You can't tell one type of Asiatic bristle from another type. You can tell natural undyed European hog bristles, let us say, from Poland. They are softer and the color is a little different, and a trade expert can tell that those soft bristles are not from China.

Now, on stiff bristles, which are the Asiatic type, they don't produce them very much in Europe. You cannot tell by examination, so we keep them all out unless they can satisfy us that they were not from China.

Mr. FRELINGHUYSEN. I can understand that approach more easily than I can trying to distinguish between one hog bristle and another.

Mr. SMITH. The other thing I wanted to say was that we have access to a lot of intelligence. We are not completely ignorant about what is going on in this area.

Mr. HAYS. What would you do, going back to my hypothetical case, if an American firm sold half a million dollars of some items to a West German firm and the West German firm in turn resold it to somebody in Poland? What business would that be of yours? How would you get at it? You don't expect an American firm to follow its products to the final user, do you?

Mr. SMITH. If the American firm is ignorant of the fact that this is going to be subsequently resold—

Mr. HAYS. Let them just say "we sold it," and they don't ask any questions. I am in the horse business. I don't expect anyone from West Germany would want to buy any of my horses, but if they did I wouldn't ask them what they were going to do with the horse afterward.

Mrs. KELLY. In other words, how do you safeguard against transshipments?

Mr. HAYS. That is exactly what I am trying to get at. Outside of having a lot of bureaucrats drawing fancy salaries in our embassies, how can you follow this up? You have got plenty of them, because I have been working on this, and you are not doing anything about it and they are not doing anything about it. Isn't that about right?

Mr. SMITH. I would like to comment on that.

Mr. HAYS. That is what I want you to do.

Mr. SMITH. On the highly strategic commodities, they don't go out of here in the first place. Commerce just doesn't license them. In other words, the ones that are the most sensitive from the standpoint of our national security they don't allow to be exported except to reliable customers in the free world.

Mr. HAYS. They don't go to anybody?

Mr. SMITH. That is right.

Mr. HAYS. Name one that doesn't go to anybody outside of atomic energy components.

Mr. SMITH. They don't go to anybody unless there are appropriate safeguards. I guess I should put it that way.

Mr. HAYS. Name an item that you are talking about. Let's be specific. These generalities annoy me.

Mr. SOMMERFIELD. Strategic computers.

Mr. SMITH. Most advanced types of computers. Of course, the export control is run by the Commerce Department. Some of the most advanced types of computers they wouldn't allow to be exported except under very carefully prescribed conditions as to their use. Of course, if somebody violated that kind of a commitment I assume that no more licenses would be granted.

Mr. HAYS. Do we have exclusively the only advanced type of computers in the world, or are there others?

Mr. SMITH. No, sir. But of course we can't control what other countries produce.

Mr. HAYS. I understand that, so the point I am making is that we are refusing to let an American computer go abroad in favor of a British or French computer if the Eastern Europeans want one.

Mr. SMITH. But you see these advanced types of computers the NATO participants would not allow to go to Soviet Russia or Eastern Europe.

Mr. FRELINGHUYSEN. I thought they told us yesterday that they couldn't reach agreement on computers among the COCOM staff and each country set its own standards.

Mr. SMITH. There are different criteria as to what is strategic. For example, under our laws we take into account whether it will greatly add to the economic potential as well as to whether the item in itself is strategic. Under the COCOM the economic potential is not a criterion.

Let us take a particular computer, which may not be the most advanced but fairly advanced. We might think that was too far advanced for the United States to let it go to Soviet Russia or Eastern Europe. On the other hand, one of our partners might think otherwise.

Mr. HAYS. So then what happens?

Mr. FRELINGHUYSEN. Then our restriction is meaningless except to exclude us from a market that others are taking, as Mr. Hays points out. If you can't reach agreement as to what is strategic, you have nothing, it seems to me.

(An exchange of correspondence between Chairman Kelly and the Office of Export Control, dealing with the shipment of American computers to Eastern Europe, appears in Appendix III, p. 258.)

Mr. TAFT. Do you give advance informal opinions in these matters without a formal application having been submitted to you?

Mr. SMITH. We don't; no. EDAC presumably might consider something informally.

Is that right, Stanley?

Mr. SOMMERFIELD. If you are talking about the strategic item to Eastern Europe from foreign countries, from American subsidiaries abroad, we are not technicians—that is, commodity technicians—in the Treasury Department. We don't really know, very often, whether the experts in military and intelligence really feel this item should or shouldn't go. We simply know it is embargoed and we say, "Give us an application and we will get advice from the other agencies." We don't give advance opinions in that sense on strategic items.

On our other regulations, which would involve other areas—Communist China, North Korea, North Vietnam, and Cuba—we can pretty well give an indication of policy in advance.

Mr. TAFT. I am amazed by how few turndowns you have in this data that you have on page 3. Out of 311 applications, only seven were denied. It sounds to me as though you might do better just putting a flat prohibition on and not having the applications come in with the redtape involved and just let them go, except where you have a specific prohibition.

Mr. SMITH. I want to emphasize that on this question of whether a particular piece of hardware is strategic or not, the Treasury has to rely on the experts in EDAC, working group 1. They are the Defense Department and intelligence agencies, and so on. We don't have the competence to determine that in the Treasury. We cannot determine whether a particular computer is a highly strategic item. In the Treasury we have to rely on the advice of the other members of EDAC who are knowledgeable in this, the Defense Department experts, the intelligence agency experts, and so on.

Mr. TAFT. It seems to me that a summary of 4 years' operations with only seven applications denied shows this is not very much of an operation if you don't give advisory rulings.

Mr. HAYS. From what I have heard about some of these computers that say \$1 million when it should be \$1,000, you ought to let them go. They might get them mixed up.

Mr. SMITH. Probably a lot of people didn't apply for items which they were pretty sure were strategic and where they would be turned down, so I cannot tell how much significance you should attach to those percentages.

Mr. TAFT. I can't, either.

Mr. SOMMERFIELD. I think most firms abroad, which are pretty large firms in this field when you are talking about computer manufacturers and electronic manufacturers, have a pretty good idea from their local authorities over there of what is likely to be permitted by COCOM to go and not to go. Consequently, when they need a license from Treasury they have a pretty good idea in advance that it is either going to be permitted or it is close to being permitted. There are more highly strategic items on which there is no chance of a license and they don't even bother to come in on it.

Mr. HAYS. I have a question on this general subject. On page 7 you say in the case of Cuba, most American controlled subsidiaries abroad have been authorized for foreign policy reasons to engage in trade with Cuba in non-United States-origin goods. That is quite a mouthful, that sentence.

As I understand it, they can do anything they like in trade with Cuba as long as they don't buy the goods in the United States that they are selling to Cuba. That is another way of keeping American firms out and giving the trade to foreign firms but allowing Cuba to get the end result.

Mrs. KELLY. You are referring to American firms abroad?

Mr. HAYS. That is right.

Mr. FRELINGHUYSEN. I don't know what the sentence means.

Mr. HAYS. If I haven't interpreted it correctly, I wish you would tell me. I understand they can sell anything to Cuba that doesn't originate in the United States.

Mr. FRELINGHUYSEN. What is that reference to, most subsidiaries abroad?

Mr. SMITH. We exclude banking and shipping.

Mr. HAYS. What would a bank sell to Cuba?

Mr. SOMMERFIELD. It wouldn't sell them anything. It would give them financial assistance.

Mr. SMITH. Loans, and so on.

Mr. HAYS. I can't imagine anybody loaning money there.

I am in the banking business in a small way, myself. We don't make loans to anybody that can't pay it back, and they have no means of paying it back.

Mr. SOMMERFIELD. Some of the European countries are making loans to Cuba.

Mr. SMITH. I would like to try to explain that. Of course you realize that American controlled subsidiaries are nationals subject to the laws of the countries where they operate. We have corporations incorporated in foreign countries. The controls which we do exercise over subsidiaries, for instance, in our Chinese controls, are a very sensitive subject. It has been a very difficult political issue for us.

In the case of Cuba, moral suasion has worked just about as well as if we prohibited these subsidiaries from engaging in trade with Cuba. With the exception of medicines and foodstuffs, there is practically no trade with Cuba by American subsidiaries abroad, even though they are generally licensed to do so.

The State Department has made it clear to them that it is contrary to U.S. policy, that we don't like them to do that; and they have in good faith, by and large, followed that.

The reason why we made that exception was, particularly in the case of Canada, that it had become a sensitive political issue there, and

we thought—and events have proven us correct—that American-controlled firms wouldn't trade with Cuba anyway if we told them we didn't want them to.

Mrs. KELLY. Do I understand correctly that an American firm in this country is prohibited to trade with Cuba?

Mr. SMITH. That is right.

Mrs. KELLY. But an American-controlled firm abroad, perhaps a subsidiary of the same firm, is not prohibited from trading with Cuba?

Mr. SMITH. That is right.

Mr. TAFT. That is for foreign policy reasons?

Mr. SMITH. Yes.

Mr. TAFT. What are the foreign policy reasons?

Mrs. KELLY. I was going to ask that. Can that same firm trade with any country, Russia or any other country?

Mr. SMITH. First, it can't trade with Communist China, North Korea, or North Vietnam. That is out. Secondly, it can't trade with Eastern Europe in strategic goods under our transaction control regulations. But thirdly, on goods to Cuba there is this general license which permits them to trade with Cuba. But bear in mind these are U.S.-owned corporations in foreign countries.

As I say, it has been a hot political issue, particularly in Canada; but also in the United Kingdom, Belgium, and various places, that we are extending our sovereignty and applying our laws in their countries.

So for foreign policy reasons when the Cuban regulations were put out, at the request of the State Department we had this general license for U.S. subsidiaries abroad; but at the same time the State Department mounted a campaign of moral suasion for U.S. subsidiaries abroad not to do this. As I said, except for medicines and foodstuffs, by and large they have not done it.

Mrs. KELLY. What would happen if an American company in Nigeria, for example, decided to send a shipment to Rumania? Where would the Treasury step in?

Mr. SMITH. Under its Transaction Control Regulations if it is a strategic commodity, it is prohibited except pursuant to Treasury license.

Mrs. KELLY. How does that affect the laws of the lost country?

Mr. SMITH. In that case if we think it is strategically important that the commodity not go, we are willing to undergo the foreign policy risks involved.

Mrs. KELLY. How do you check on that?

Mr. SMITH. The prohibition applies to the American parent. That is where we get jurisdiction. The American parent has control over the foreign subsidiary, and our prohibition applies to them.

Mr. TAFT. What do you define as control under the circumstances?

Mr. SOMMERFIELD. There is no definition. We merely use the word "control" and it has to be applied to a particular case.

Mr. SMITH. Effective control, but we presume control exists if the U.S. parent was 50 percent or more of the stock. It has to be done on an individual basis because effective control, for instance, in the case of General Motors, might be 20 percent where in the case of another corporation you would have to have 51 percent to have effective control.

Mr. HAYS. What could you do if an American owned corporation decided to trade with one of these countries? They are a foreign corporation although the original investment was from the United States. You don't really have any jurisdiction over them at all; do you?

Mr. SMITH. We can prosecute the parent corporation. The Commerce Department might deny them the privileges of export licenses.

Mr. HAYS. How could you prosecute the parent corporation?

Mr. SMITH. For permitting its subsidiary to engage in this activity since it controls it.

Mr. HAYS. Did you ever prosecute one?

Mr. SOMMERFIELD. There has only been one case. Most American firms are not interested in violating this regulation. They are pretty cooperative and we don't have any problems. There was only one obscure case. It was a firm in Austria which was controlled by an American resident.

Mr. HAYS. My opinion is if the Justice Department can't get Rap Brown in jail you would have a hard time prosecuting General Motors in Germany.

Mr. SMITH. We would prosecute General Motors here.

Mr. HAYS. But by the time they had exhausted their appeals probably you and I would both be dead and nothing would have happened. Let's be practical about it.

Mr. SMITH. We have never lost a case that we went to the court on.

Mr. HAYS. You just got through telling me that you only had one case.

Mr. SMITH. We have prosecuted a large number of cases under the foreign assets control regulations. We have had only one case under the transaction control regulations for activities of a foreign corporation controlled by Americans.

Mr. HAYS. That is what we were talking about. What cases? You say you have prosecuted a lot of cases. You must have shifted fields on me and maybe ballgames.

Mr. SMITH. We have prosecuted illegal importations of Chinese goods.

Mr. HAYS. That is different. That is something that happens here. But suppose General Motors decided to ship Opels to Cuba from Germany. What do you do about that?

Mr. SMITH. I would presume we would refer it to the Justice Department for prosecution.

I would like to also point out that there is a stigma attached. I don't think U.S. corporations are particularly anxious to be declared in violation of our national security controls over trade and financial transactions with these areas. By and large it is my impression that they have complied in good faith with these regulations.

Mrs. KELLY. Mr. Smith, we have been speaking about exports. What about your control over imports from Communist countries? Do you have any special problems involved in that?

Mr. SMITH. No special problems because our import controls are just a flat embargo.

Mrs. KELLY. How do you determine whether a particular commodity comes from North Korea or Red China? We do have imports, some from Communist countries.

Mr. HAYS. What do you embargo from Poland, for example?

Mr. SMITH. Nothing from Poland as such. There is no embargo on goods from the Soviet bloc countries except for two items. One of them is certain types of furs.

Mr. FRELINGHUYSEN. Aren't furs imported from the Soviet Union?

Mr. SMITH. I think certain specified furs are.

Mr. FRELINGHUYSEN. You mean we are trying to conserve furs in Russia? On what other basis would we try to determine what kind of furs they are?

Mr. HAYS. On the same basis that you distinguish one type of hog bristle.

Mr. SOMMERFIELD. That is not an embargo on Chinese goods. It is a statutory embargo aimed at certain fur skins from Russia.

Mr. HAYS. It is a protective device more than anything else, I assume.

Mr. SMITH. Essentially there is no embargo on goods from the Soviet Union and Soviet bloc countries unless presumed to be from China. There is a complete embargo on goods from Communist China, North Korea, North Vietnam, and Cuba, plus other goods which are presumptively Chinese.

Mrs. KELLY. We return to the question of the bristles. I don't know how you can determine whether they come from those countries or not. We can, of course, use some other example.

Mr. HAYS. If I can throw in an observation for what it is worth, I don't think they can, but it gives a lot of people employment in trying.

Mr. SMITH. We do the best we can.

Mr. HAYS. That is fair enough. That covers the waterfront.

Mr. SMITH. Nothing directly from China, North Korea, or North Vietnam, coming directly. Then there is a long list of items in our regulations which are presumptively Chinese which can't come in from any place.

Mr. HAYS. Is human hair one of them?

Mr. SMITH. Split bamboo, straw braids, hog bristles, carpet wool, Tibetan and Nepalese types, cashmere—

Mr. HAYS. Stop right there. Cashmere can't come from any place into this country.

Mr. SMITH. It is presumptively Chinese unless it comes from Iran.

Mrs. KELLY. India or Pakistan.

Mr. HAYS. If I buy a cashmere sports jacket in London am I presumptively buying a Chinese one?

Mr. SOMMERFIELD. Customs is physically able to differentiate the origin of raw cashmere by physical examination. Just by looking at it, a customs wool examiner can tell whether raw cashmere came from Inner Mongolian or Chinese goats, or from Outer Mongolian goats.

Mr. HAYS. You keep saying that, but I am not going to believe it.

Mr. SOMMERFIELD. They have pretty well demonstrated it to us. We have given them samples and they would say that is Inner Mongolian. The growing conditions of the goats are a little bit different. Manufactured cashmere cloth is a different story, and it is not presumptively Chinese.

Mrs. KELLY. As far as raw cashmere is concerned, I do believe it.

Mr. HAYS. I can't believe an expert can tell me where it came from.

Mrs. KELLY. Are there any further questions? Mr. Taft?

Mr. TAFT. Mr. Smith, on the supplementary material you submitted it is indicated that the authority originally under the Trading with the Enemy Act was supplemented by Executive Order 9193, which indicates we are still in a state of national emergency from 1950. Is that correct?

Mr. SMITH. That is correct.

Mr. TAFT. Is that true as to any other legislation? This is just for the purpose of the Trading with the Enemy Act, or are there other acts under which we are also in a state of national emergency?

Mr. SMITH. I think that the principal application of it is to the Trading with the Enemy Act, but I wouldn't want to say definitely. I think I ought to check that. The national emergency declared in 1950 was related to the Korean war.

Mr. TAFT. The question I want to get to is, insofar as the Trading with the Enemy Act is concerned, there wouldn't be any difference between a declared state of war and a national emergency. The same triggering has already occurred. Is that correct?

Mr. SMITH. That is right. There have been a number of Executive orders issued since referring to the continued existence of the national emergency of 1950. In other words, the President has indicated that it continues to exist.

Mr. TAFT. Thank you.

Mrs. KELLY. Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. I would like to ask a couple of questions about the beginning of your statement, Mr. Smith. You spoke of the trend of trade between the Communist countries and the NATO countries. You indicate that the trend has been fairly constant, at the bottom of page 2.

Mr. SMITH. In terms of percentages.

Mr. FRELINGHUYSEN. Does the trade of NATO countries include the United States? I was under the impression there had been a sharp increase in Western European countries' trade with Eastern Europe, and yet this statement doesn't seem to bear that out. Is it because our trade is included? Would that reduce it?

Mr. SMITH. No. At the top of page 3 it says that imports from Communist countries increased 13.7 percent in value between 1965 and 1966. What we are demonstrating here is that as a percentage of this total trade it has remained fairly constant. It obviously has gone up.

Mr. FRELINGHUYSEN. NATO countries are exclusive of the United States?

Mr. SMITH. The percentages in my statement were for all NATO countries, including the United States.

(Mr. Smith subsequently submitted the following statistical table for the record:)

SUMMARY TABLE I.—TRADE OF NATO WITH COMMUNIST COUNTRIES<sup>1</sup> 1963-66

(In millions of dollars)

	1963				1964				1965				1966			
	Total from (or to) entire world	From (or to) Communist countries	Trade with Communist countries as percent of world trade		Total from (or to) entire world	From (or to) Communist countries	Trade with Communist countries as percent of world trade		Total from (or to) entire world	From (or to) Communist countries	Trade with Communist countries as percent of world trade		Total from (or to) entire world	From (or to) Communist countries	Trade with Communist countries as percent of world trade	
Imports (C.I.F.):																
European NATO.....	60,353.6	2,663.0	4.4		67,503.3	2,741.9	4.1		73,198.7	3,228.0	4.4		79,185.5	3,638.6	4.6	
Canada (f.o.b.).....	6,081.2	35.5	.6		6,944.2	37.3	.5		7,985.9	56.9	.7		9,126.8	74.1	.8	
United States (f.o.b.).....	17,142.0	91.8	.5		18,684.6	102.5	.5		21,366.4	141.6	.7		25,550.3	182.2	.7	
Total, NATO.....	83,576.8	2,790.3	3.3		93,132.1	2,881.7	3.1		102,551.0	3,426.5	3.3		113,862.6	3,894.9	3.4	
Exports (f.o.b.):																
European NATO.....	53,766.8	2,117.9	3.9		59,926.8	2,335.4	3.9		67,127.2	2,765.7	4.1		73,347.8	3,348.6	4.6	
Canada.....	6,471.6	291.5	4.5		7,699.3	626.0	8.1		8,107.2	429.0	5.3		9,551.4	595.8	6.2	
United States.....	23,351.0	203.1	.9		26,442.0	339.7	1.3		27,346.2	139.2	.5		30,336.0	198.1	.7	
Total, NATO.....	83,589.4	2,612.5	3.1		94,068.1	3,301.1	3.5		102,580.6	3,333.9	3.3		113,235.2	4,142.5	3.7	

<sup>1</sup> Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, U.S.S.R., Communist China, North Korea, North Vietnam, Outer Mongolia, and Cuba.

Mr. FRELINGHUYSEN. You can't tell from reading whether it includes the United States or not. The first paragraph on page 3 could imply that you had previously been talking about exports from NATO countries other than the United States.

I am not sure I understand your statement in the middle of page 3, the last sentence of that full paragraph.

While we must seek out every opportunity to improve our payments position, U.S. policies with respect to East-West trade cannot be motivated primarily by balance of payments considerations. It is important to maintain scrutiny over this trade for national security reasons.

We are not talking about strategic items at all, are we? We are talking about nonstrategic, which means items not involving national security. How does that have any relevance?

Of course we need to concern ourselves with the export from this country of items which would be considered strategic, but that is entirely irrelevant to the volume of trade with the Communist countries, isn't it?

Mr. SMITH. I think essentially so, except that the Congress has said in, I think, an amendment of the Export Control Act that we not only ought to look at the question of whether an item is strategically dangerous to the national security but its contribution to the economic potential of the Soviet bloc.

Mr. FRELINGHUYSEN. We don't have any restrictions, do we, on that basis?

Mr. SMITH. I don't know whether the Commerce Department has any or not. Of course, another consideration is whether the U.S. economy can stand these exports. In other words, if something is in short supply in the United States there is a mandate to the Commerce Department under the Export Control Act to limit the export of that commodity.

Mr. FRELINGHUYSEN. But presumably that is not a concern in this area.

Mr. SMITH. No.

Mr. FRELINGHUYSEN. I have no other questions.

Mr. HAYS. I have a question. Does your office, Mr. Smith, prepare these regulations about how we are permitted to trade, and so on?

Mr. SMITH. Yes, sir.

Mr. HAYS. Did your office prepare this proposed travel regulation that is before the Ways and Means Committee?

Mr. SMITH. Well, we had a hand in it, along with Assistant Secretary Surrey and his staff.

Mr. HAYS. If your regulations for so-called trading with the enemy are as full of holes as that is, you could drive a bulldozer through any one of them. I will tell you right now, I am not going to vote for that act, but even if we passed it, it would be impossible to enforce it. You would have to quadruple the number of bureaucrats trying to police that one. I think probably your other regulations are just about in the same situation.

I wonder if we ought to have anything. They don't seem to me to be very enforceable. The discussion I have heard this morning doesn't indicate they are enforceable except on a voluntary basis.

Mr. SMITH. As far as the foreign assets control regulations are concerned, it is my considered opinion that there is a very high degree of compliance.

Mr. HAYS. When you talk about foreign assets control, you are talking about American owned or substantially owned corporations?

Mr. SMITH. Yes, both here and abroad.

Mr. HAYS. I got the impression that was true, but I also got the impression it was a voluntary thing and there was no reason why it couldn't be gotten around if they wanted to.

Mr. SMITH. We hope that most Americans will voluntarily comply with all of our laws.

Mr. HAYS. I have got news for you. If you get that travel tax they won't.

Mrs. KELLY. Mr. Smith, I have one last question. I am not too familiar with the operation of the equalization tax. Would you tell us briefly how effective that is? Was there any change in regulations recently to overcome the loopholes in that? This was brought to my attention on several occasions last summer when a number of firms told how they were purchasing abroad instead of through New York. Would that be involved in this? Do they avoid the transaction by buying stock in these?

Mr. SMITH. I am not sure I am competent to answer that question. I am not in charge of administering the interest equalization tax, but overall it is my impression that it has been having the effect which it was intended to have in terms of reducing the investment in equities abroad. You are asking me a particular question about buying stock abroad. I am not familiar with that, but I can say that the scope for possible evasion was considerably restricted last July when the enforcement procedures were substantially revised.

Mr. FRELINGHUYSEN. I wonder what the sentence on the last page of your statement means:

Internal Revenue is only involved in trade, including East-West trade, when Americans finance exports through the receipt of foreign debt obligations of one year or more.

Are there such receipts from Communist countries?

Mr. SMITH. There can be in the case of exports on terms of more than 1 year where the Export-Import Bank guarantees the payment of the obligation. There have been some exports to Eastern European countries where the Export-Import Bank guarantees the obligation and there is an exclusion in the interest equalization tax for those obligations if they are related to U.S. exports.

Mr. FRELINGHUYSEN. I don't think I understand that.

Mr. SMITH. I don't think I stated it very well. As a means of promoting exports the Export-Import Bank can guarantee the payment by the foreign obligor, either in whole or in part. The Interest Equalization Tax Act contains, among others, an exclusion for foreign obligations which are in payment of U.S. exports where the obligations are guaranteed by a U.S. agency, including the Export-Import Bank.

I think what exports there have been to the Soviet Union and Eastern Europe on credit of more than a year have been largely those which were guaranteed by the Export-Import Bank.

I think private businesses in the United States don't generally extend credit to the Soviet bloc and Eastern European countries on their own responsibility.

Mr. FRELINGHUYSEN. In that case they would not be subject to the tax?

Mr. SMITH. In that case they would not be subject to the tax.

Mr. FRELINGHUYSEN. Some of us were in Yugoslavia a couple of years ago and there was talk of joint ventures between Yugoslav interests and American private interests. Would that kind of participation be subject to the interest equalization tax?

Mr. SMITH. I think it would be difficult to give you an answer to that without seeing what was the nature of the obligations.

Mrs. KELLY. It is a joint venture.

Mr. SMITH. If it is a direct investment, the interest equalization tax, as I understand it—and I am not the world's leading expert on this subject—does not apply. It applies to equity investments. I think direct investments are defined as more than 10 percent.

Mr. FRELINGHUYSEN. So the way it is done might determine whether or not the tax applies?

Mr. SMITH. That is right.

Mrs. KELLY. Would you submit an illustration to us when one does apply and when one does not? You may submit that for the record.

Mr. SMITH. When what applies?

Mrs. KELLY. When a tax applies on this joint venture and when it does not.

Mr. FRELINGHUYSEN. Are we engaging in any joint ventures yet?

Mrs. KELLY. Yes, we are.

Mr. SMITH. I will be glad to supply a further statement for the record.

Mr. FRELINGHUYSEN. So there would be concrete instances?

Mr. SMITH. Yes.

(The following statement was subsequently supplied:)

#### THE IMPACT OF THE INTEREST EQUALIZATION TAX ON A JOINT VENTURE BETWEEN AMERICAN PRIVATE INTERESTS AND YUGOSLAV INTERESTS

Under the direct investment exclusion, the interest equalization tax does not apply to the acquisition of stock or debt obligations of a foreign corporation (or partnership) if the U.S. person making the acquisition owns 10 percent or more of the voting power (or partnership profits interest). Therefore, if an American investor owned 10 percent or more of a Yugoslav joint venture (say, in the form of a Yugoslav corporation) it could invest in stock or obligations of the corporation without payment of tax, but if its interest were less, it would generally be subject to the interest equalization tax on such investments.

Mrs. KELLY. I will now return to the question I raised before. How do you collect the tax on the purchase of stock by an American through a foreign exchange? Aren't some people avoiding the tax in New York in that manner? I have been told that is the way some people are buying today. Has that anything to do with the Treasury?

Mr. SMITH. I am sure it has to do with the Treasury. I don't know the answer to your question. I will be happy to get you an answer to that question.

Mrs. KELLY. I understand there is some way of getting around the tax in those instances. I don't know how it is done but I would like to know what our Government can do about it, if these allegations are true.

Mr. SMITH. I am sorry I don't know the answer, but I will be happy to get the answer for you.

(The information follows:)

#### LOOPHOLE IN THE OPERATION OF THE INTEREST EQUALIZATION TAX

Early in 1967, it was discovered that foreign stocks were being purchased from foreigners by Americans without the payment of the interest equalization tax and sold to other Americans who were not liable for the tax by reason of the exemption for prior American ownership. The extent of this problem was

investigated by the Treasury and it was concluded that it was sufficiently serious so that statutory amendments were advisable. Amendments permitting more effective enforcement were proposed and enacted in July 1967 as part of the Interest Equalization Tax Extension Act. Enforcement activity under the amendments has been vigorously pursued and from every indication we have this type of evasion has been stopped.

Mrs. KELLY. Are there any other questions?

Mr. HAYS. I have one not on the general subject but on the travel tax business. How would you propose to handle somebody who had a bank account abroad and who went abroad and spent money from that bank account? They didn't take it with them and, therefore, they didn't report it. Suppose you had a bank account in London and you just wrote checks on the London bank. Do you have any idea of whether such bank accounts are being established at the moment and whether this is contributing to the dollar outflow instead of stanching it?

Mr. SMITH. Let me answer your first question first.

Mr. HAYS. I am interested in this as a Member of the House.

Mr. SMITH. There are, of course, all kinds of ways to get money abroad in addition to taking cash abroad. You can take your credit cards abroad. Some people can probably borrow money abroad and some have bank accounts abroad. Obviously there are opportunities for evasion.

In order to have an airtight control which would be as close as possible to perfection, you would have to have complete foreign exchange controls, which we want to avoid.

In the case of the U.S. income tax there are people who try to evade that. There are people who get receipts in cash, for instance, businessmen and professional people, and don't record them on their books. They keep them in cash and it never gets recorded. But we have a very high degree of compliance on our income tax. We think there will be a high degree of compliance on the travel tax, too.

Mr. FRELINGHUYSEN. You didn't answer the question. Is there an evasion if you utilize money abroad?

Mr. SMITH. Yes, indeed; if you do not report it on your travel tax return, because the tax is on your expenditures from whatever source. You have to declare when you go out and when you come in, under the bill, what cash and travelers checks you have with you. You also estimate what you are going to spend and you pay the estimated tax on that amount.

Mr. FRELINGHUYSEN. You are making me range on Mr. Hays' side by describing it this way.

Mr. SMITH. The tax return is subject to audit.

Mr. FRELINGHUYSEN. There are supposed to be 2 million travelers go abroad this year. Do you think it will take 2 million more to check up on this? Are you going to hire 2 million more employees? That is a self-defeating thing if I ever saw one.

Mr. SMITH. We have a very serious problem.

Mr. HAYS. I am going to help you with it. I am going to cut about a billion off foreign aid.

Mrs. KELLY. Are there any more questions?

If not, then thank you Mr. Smith and Mr. Sommerfield. The committee will stand adjourned until further notice.

(Whereupon, at 11:25 a.m., the committee adjourned.)

## EAST-WEST TRADE

### 4. Export-Import Bank

TUESDAY, FEBRUARY 27, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment, at 2:10 p.m., in room 2255, Rayburn House Office Building, Hon. Edna F. Kelly (chairman of the subcommittee) presiding.

Mrs. KELLY. The meeting will please come to order.

Does the United States have a double, self-contradictory policy on East-West trade?

The picture presented by the initial witnesses who appeared before our subcommittee suggests that we may be going in opposite directions in this field.

On the one hand, we have shackled our businessmen with a multiplicity of legislative and administrative restrictions, making it extremely difficult for them to compete with Western European firms in the markets of Eastern Europe.

On the other hand, we have left the door sufficiently open to allow a two-way trade of nearly \$400 million a year between the United States and the Communist countries, while some of the latter are apparently supplying implements of war to North Vietnam.

The resulting situation is neither a credible bridge-building proposition, nor an embargo on East-West trade.

As a matter of fact, as was brought out through the questioning of some of the witnesses last week, the existing situation may be undermining the credibility of our Government abroad, and encouraging evasion and subterfuge by prompting some exporters to work through foreign subsidiaries and other foreign firms in order to bypass restrictions on exports from the continental United States.

If this is, indeed, the case, then we ought to know about it—and do something.

Our subcommittee has undertaken these hearings in an effort to learn the facts of this situation and to ascertain to what extent our laws on East-West trade either promote, or undermine, our country's foreign policy objectives.

Thus far, we have heard from Members of Congress, and from representatives of the State and the Treasury Departments.

Today, we are pleased to welcome the Hon. Walter C. Sauer, First Vice President and Vice Chairman of the Export-Import Bank. He is accompanied by Mr. William S. Balderston, Chief, European Division, and Mr. Warren Glick, Assistant General Counsel.

Mr. Sauer, we received an advance copy of your statement. It is rather brief, so I would suggest that you read it in its entirety. We will then move on to questions from the subcommittee.

Mr. Sauer, will you proceed?

**STATEMENT OF WALTER C. SAUER, FIRST VICE PRESIDENT AND  
VICE CHAIRMAN, EXPORT-IMPORT BANK**

Mr. SAUER. Very good, Mrs. Kelly.

I would like to introduce also our Assistant General Counsel, Mr. Warren Glick. We may have to call on him for some backing up, and Mrs. Cornelia Ferber, our Legislative Assistant. Mrs. Kelly, in my statement before this committee in October 1966, I traced the history of past relations between the Export-Import Bank and the Communist countries. In summary, up until that time the bank had authorized credits and guaranties in approximately the following amounts:

Hungary, \$24 million; Poland, \$4 million (omitting credits of \$40 million extended shortly after the war and prior to the time a Communist regime was established in that country, and \$61 million extended by the Bank in the 1950's as agent for the Mutual Security Agency); Rumania, \$20 million; Yugoslavia, \$160 million.

All of these credits have been and are being serviced satisfactorily. There had been no transactions with Bulgaria, Czechoslovakia or the U.S.S.R.

Again, I omit a \$20 million cotton credit which we extended to Czechoslovakia shortly after the war, and prior to the time the Communist regime was established in that country.

Since October 1966, the bank has guaranteed short- and medium-term transactions with Communist countries to the extent of \$4 million for Hungary, \$6.5 million for Yugoslavia, and some \$600,000 for Bulgaria. Since mid-1967, the Bank has refrained from extending significant credits or guaranties to these countries while the Congress was debating the role that the Bank should play in connection with East-West trade.

This debate has taken place in connection with legislation extending the life of the Bank and increasing its lending authority. Congress has now approved this legislation and, in so doing, adopted two amendments to the Export-Import Bank which will affect the Bank's authority to extend credits and guaranties to the Communist countries.

One amendment prohibits the Bank from financing or guaranteeing exports for a Communist country unless the President finds it to be in the national interest to do so. In most respects, this provision is virtually the same as that which has been included for the past 4 or 5 years in the Bank's annual appropriation act. However, the provision is broader in one significant respect than that which has been contained in the appropriation legislation.

The Bank is now prohibited, except with the approval of the President, from engaging in an export transaction to a third country when the goods will be used in one of the Communist countries. Further, of course, the provision now is a permanent part of the Export-Import Bank Act.

This provision of the Bank Act requiring a Presidential finding in the case of a transaction with or for the benefit of a Communist country must be read in the light of another amendment to the Export-Import Bank Act which the Congress incorporated in the recent legislation.

As we were saying a moment ago, it is very recent. It just passed an hour or so ago.

This second amendment provides that the bank shall not finance or guarantee transactions with any country (a) which is engaged in armed conflict with the United States; or (b) which "furnishes by direct governmental action (not including chartering, licensing or sales by non-wholly-owned business enterprises) goods, supplies, military assistance, or advisers to a nation" with whom the United States is in armed conflict.

North Vietnam, of course, is the country with which we are in armed conflict.

Different from the amendment with respect to Communist countries, this second provision is an outright prohibition on the Bank's authority and does not permit the Bank to act with a Presidential waiver on a finding of national interest. Representative Fino, who sponsored the legislation in the House, stated that all the Communist countries other than Yugoslavia would be affected.

The Bank is in process of ascertaining through the offices of our embassies abroad what countries are furnishing governmental assistance to North Vietnam, and, therefore, would fall within the prohibition. Since the amendment also provides that the Bank may not engage in a transaction with a third country for the benefit of a country which is assisting North Vietnam, the much publicized Fiat case is prohibited under the amendment.

You will recall that in that instance, it was proposed that the Export-Import Bank extend a credit to Italy to finance machine tools which Fiat would install in the automobile plant which it is building in the Soviet Union.

Thus, the effect of the two amendments on the Export-Import Bank's activities vis-a-vis the Communist countries is this:

Assuming the governments of those countries (other than Yugoslavia) are furnishing and continue to furnish goods and supplies to North Vietnam, the Bank is prohibited from financing or guaranteeing exports to or for use in those countries so long as the Vietnam war lasts. When the war ends, the Bank may again finance or guarantee transactions with those countries when the President finds it to be in the national interest to do so.

That is my statement, Mrs. Kelly.

Mrs. KELLY. Thank you so much, Mr. Sauer.

Mr. Sauer, on page 1 of your statement, you stated that the Bank has refrained from extending any significant credits to the Eastern European countries since mid-1967. What, precisely, do you mean by the term "significant"?

Mr. SAUER. I mean something in amounts, I would say, over \$1 million or \$2 million, but more significant, credits or guaranties that we enter into directly with the countries involved, rather than through our exporters.

The \$4 million for Hungary, the \$6.5 million for Yugoslavia, and \$600,000 for Bulgaria were all done through our exporters, and they were all broken up into smaller transactions, rather than anything large.

Actually, the \$4 million for Hungary was authorized well prior to mid-1967.

The force of the statement is this: We had the opportunity to engage in negotiations with several of the countries involved, on significant credits in the sense of a number of million dollars, for plants, and we said in view of the fact that Congress is debating the policy involved in our extending credits to Communist countries, let's not engage in these negotiations. This has been true since, I would say, June of 1967.

Mrs. KELLY. Yes. Well, I will leave that for a moment.

I would like to go to pages 2 and 3 of your statement where you have described two amendments to the Export-Import Bank Act which relate to transactions with Communist countries.

Are these amendments finalized at this time?

Mr. SAUER. They are, Mrs. Kelly; yes.

Mrs. KELLY. Then it would appear that the second amendment effectively bars any transactions with the Eastern European countries, with the possible exception of Yugoslavia.

Is that right?

Mr. SAUER. This is the assumption we are proceeding on at this moment. As I say, we are checking this out through our embassies in these countries. The question posed is, "Is the country to which you are accredited"—now addressing the Ambassador there—"furnishing goods, supplies, military assistance or advisers, within the meaning of the amendment to this act?" which I have quoted.

This is the question we are posing, and we haven't got definitive replies yet.

Mrs. KELLY. Can I deduce from that that you have some applications on hand at this time?

Mr. SAUER. Not quite, Mrs. Kelly. Our problem is this: We have an operation which we call the export credit guarantee and insurance operation, which is rather automatic; that is, we issue guarantees and insurance to exporters upon all applications of our own exporters rather than the foreign countries.

We have to send out notice to these institutions that are conducting this program for us, the banks and the insurance company in New York, "Stop. No more. Don't do anything more under this program for exports to these countries." That is the first thing.

Now as to applications from foreign countries, no, we don't have anything in particular. We have fended them off since June 1967, as I said.

Mrs. KELLY. I would like to follow that up with one more question: Did the bank issue guarantees in connection with sales to Communist countries prior to 1964, and if so, to what countries?

Mr. SAUER. Yes, we were engaged in operations prior to 1964. I believe prior to 1964 most of our activities took place in Yugoslavia. We had nothing particular in the other countries. We may have done some things in Poland, as I indicated, in the 1950's, as agents for the

mutual security, but Yugoslavia was the main recipient of our financing and guarantees.

Then in 1964, after the U.S.S.R. evinced interest in buying wheat in the United States, the Congress passed the first of these appropriation acts which prohibited us from engaging in transactions with the Communist countries unless the President found it to be in the national interest to do so.

The President did find it to be in the national interest for us to do this, first for agricultural products only, and much later for all kinds of goods, other than arms or ammunition; all peacetime goods.

Now, following those presidential findings, we did several things with the Communist countries. With Hungary, we did agricultural products. With Poland, we also did some agricultural products. We did none with the U.S.S.R., although it was the original applicant—or if not applicant, it was the country which provoked the debate, so to speak. Later we did a petroleum plant with the Rumanians.

That is about the extent of our activity, other than the continued activity in Yugoslavia.

Mrs. KELLY. One final question before I call on Mr. Frelinghuysen.

What portion of the U.S. exports to the Eastern European countries is covered by Bank guarantees or loans?

Mr. SAUER. Infinitesimal.

Mrs. KELLY. Infinitesimal?

Mr. SAUER. Oh, very small; very small.

Mrs. KELLY. Congressman Frelinghuysen, do you have a question?

Mr. FRELINGHUYSEN. Thank you, Madam Chairman.

Mr. Sauer, could I ask you how a Presidential determination is arrived at, which enables guarantees to be made? On what basis is a Presidential determination made?

Mr. SAUER. Well, it is primarily upon the basis of a recommendation of the Secretary of State, Mr. Frelinghuysen, to the President, and just what goes in the process of making that determination by the Secretary I am not able to say. That is done within the State Department, of course, and it is based on foreign policy considerations to which the Export-Import Bank is not necessarily a party.

We join in the recommendation to evidence our interest and our ability to extend the guarantee, or the credit, as the case may be, in the event the President makes the favorable finding, and that was done in these several instances that I mentioned.

Mr. FRELINGHUYSEN. You join in advocating that there should be a favorable Presidential determination?

Mr. SAUER. I would say yes.

Mr. FRELINGHUYSEN. Do you do it on the basis that it would be a good commercial transaction, or because from some policy point of view it would seem desirable?

Mr. SAUER. I was just about to say that I think our role is limited to the commercial and financial aspects, and that is understood when we endorse the recommendation; that is, we endorse it from the standpoint, I repeat, of the Bank's ability to finance this particular country; that is, to extend credits which we find we will be paid for.

Mr. FRELINGHUYSEN. But State presumably looks at different considerations in making a recommendation that there be a Presidential determination.

Mr. SAUER. That is correct, sir.

Mr. FRELINGHUYSEN. What has your experience been on the guarantees that have been issued? Has it been pretty good?

Mr. SAUER. It was been good, Mr. Frelinghuysen. These guarantees and credits have been serviced by the countries involved.

Mr. FRELINGHUYSEN. Turning to the legislation that the House just approved today with respect to these new amendments, you say the first provision is basically a continuation of language in previous appropriations bills, but is now broadened to include any transaction with a third country.

Mr. SAUER. That is correct.

Mr. FRELINGHUYSEN. Then the second provision would seem to prevent completely any trade with Eastern European countries, as I understand it. You say this is an outright prohibition on the Bank's authority, and that now you are exploring with embassies what countries are trading with North Vietnam. Presumably, to some degree, they are all engaged in this kind of trade, and it will lead to a prohibition of any guarantees, because there is no escape clause.

Mr. SAUER. That is correct. If the assumption is correct—which we are in the process of checking—that these countries, other than possibly Yugoslavia, are in fact furnishing goods to Vietnam, there is an outright prohibition on our ability or authority to extend guarantees or credits, so long as the Vietnam war lasts.

Mr. FRELINGHUYSEN. And automatically, the language now incorporated into the law invalidates the previous determinations with respect to the national interest? Or are those still applicable?

Mr. SAUER. They may stand there, but the more restrictive language of the second amendment would apply; namely, we would be prohibited from engaging in these transactions.

Mr. FRELINGHUYSEN. Thank you.

Mrs. KELLY. Mr. Hamilton?

Mr. HAMILTON. Mr. Sauer, you mentioned in your statement the Fiat case. What has happened there? Have they gone ahead with their plans in the Soviet Union to build the automobile production facility?

Mr. SAUER. We are informed that Fiat is proceeding to fulfill its agreement with the Soviet Union, and construct the plant. We were further informed directly by Fiat—that this was prior to the passage of the legislation today—that they had abandoned any thought of pressing their request with the Export-Import Bank, and were proceeding to buy \$25 million of machine tools in the United States rather than the \$50 million they had asked us about, and that they were going to pay cash, or get credit somewhere else.

Mr. HAMILTON. They worked the financing out elsewhere; not in this country.

Mr. SAUER. Somewhere. We don't know that. I suspect it was not in this country.

Mr. HAMILTON. They have reduced their purchases from American businesses by \$25 million.

Mr. SAUER. That is correct.

Mr. HAMILTON. What kind of an attitude does the Bank have on that transaction?

Mr. SAUER. Did we have?

Mr. HAMILTON. Do you have now.

Mr. SAUER. Well, of course, we abide by the law of the Congress.

Mr. HAMILTON. Do you consider the law of the Congress a mistake?

Mr. SAUER. I wouldn't say that, Mr. Hamilton. I would say this: That when the request was filed with us a year and a half ago, we thought this was something that we should do. We had a good borrower in Italy, we knew that the machine tools were subject to license, that they were not on the prohibited list, and we had the benefit of a finding of the executive department that the Executive was in favor of this transaction. For many policy considerations, the Executive thought this should be done.

So on that basis, we at the Bank were quite ready to do it, but as I indicated, we refrained from pursuing it after the debate on the matter erupted in Congress.

Mr. HAMILTON. The Bank is now prohibited, as you say in your statement on page 4, from financing or guaranteeing exports to any countries so long as the Vietnam war lasts. How do you interpret that phrase, "so long as the Vietnam war lasts"?

Mr. SAUER. That is rather lay language I have used, Mr. Hamilton, as you have quickly seen, and—

Mr. HAMILTON. Is that the language of the bill?

Mr. SAUER. No, it is not. I just loosely used the term "the Vietnam war." The act mentions "armed conflict." I suppose if the Vietnam war ended, and we were engaged in an armed conflict with another country, this amendment would apply. The wording of the amendment is this:

The bank shall not finance a guaranty transaction for any country which is engaged in armed conflict with the United States.

Nor can we help a country that is helping any such country. So the provision no longer applies when armed conflict ends.

Mr. HAMILTON. So if, as some people say, there will be for years and years, guerrilla activity and the like in Vietnam, and perhaps some American commitment there, as in the case of Korea, this would still apply, in your judgment?

Mr. SAUER. I will turn to our lawyer at this point, and ask him what we do then.

#### STATEMENT OF WARREN GLICK, ASSISTANT GENERAL COUNSEL, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. GLICK. Well, it would seem to me, Mr. Hamilton.

Mr. HAMILTON. So long as we are shooting at anybody, anywhere, this amendment would apply, in your interpretation?

Mr. GLICK. Yes, sir. It says armed conflict with armed forces of the United States.

Mr. HAMILTON. That could develop into quite a restriction, couldn't it?

Mr. GLICK. Yes, sir.

Mr. HAMILTON. What is the attitude of the Communist countries toward these restrictions? Have you had any reaction from them?

Mr. SAUER. No, I don't believe we have at the Bank. Actually, we haven't seen representatives of those countries since the midsummer of 1967, and to my knowledge, they haven't made any representations to the Bank.

Mr. HAMILTON. All right. That is all, Madam Chairman. Thank you.

Mrs. KELLY. Mr. Derwinski?

Mr. DERWINSKI. Thank you, Madam Chairman.

May I first mention that those are very attractive Irish earrings you have.

Mrs. KELLY. Thank you, Mr. Derwinski.

Mr. DERWINSKI. Mr. Sauer, background information that we have prepared by our staff goes into great detail on the 1966 determination by President Johnson permitting the sale of "peaceful" U.S. products to Bulgaria, Czechoslovakia, Hungary, and Poland.

How do you define, or how was the definition presented to you, of "peaceful" in the context of that determination?

Mr. SAUER. I don't know that we have thought about this until just now, but I will give you this answer, sir, which I think is correct: There was no problem with the items that we were called upon to deal with. It was farm machinery and things like that.

I believe we would have been protected, so to speak, by the Export Control Act under which Commerce issues licenses or does not issue licenses, and they make the determination as to when or how something should be exported, and in what category it falls, and we would be guided accordingly.

You see, we don't do anything unless Commerce issues the license.

Mr. DERWINSKI. Earlier, in response to a question from Mr. Frelinghuysen, you pointed out that the determination by the President followed recommendations of the Department of State, and I believe in earlier testimony we were advised that the Department of State advisory relationship to the Commerce Department is motivated by their philosophy of bridge building, so that they matter of factly were pleased to recommend whatever Commerce wished to sanction.

That raises the question of the petroleum plant to Rumania. Was the determination by the President permitting in 1964 the sale of products and services specifically determined to permit the acquisition by Rumania of those petroleum facilities?

Mr. SAUER. It was not, sir. The President's finding, if I recall, was in general language to the effect that he found it to be in the national interest for the export—

Mr. DERWINSKI. But my question is, so far as Rumania was concerned, the item of importance that they were then able to acquire was the petroleum plant.

Mr. SAUER. That is correct, but the President did not find that it was in the national interest for the Export-Import Bank to finance through a guarantee a transaction involving a petroleum plant. He found that it was in the national interest for the Export-Import Bank to engage in guarantees and credits with Rumania.

The Bank then had the application for the petroleum plant, and Commerce was prepared to issue the license, so we went ahead and issued the guarantee.

Mr. DERWINSKI. Right, at the risk of being too repetitious, but the practical effect was that the goods and services involved, the major portion, was this petroleum plant.

Mr. SAUER. No question about it. I was just trying to make the point that the President himself did not make the finding that we ought to do the petroleum plant.

Mr. DERWINSKI. Mr. Sauer, I have been very pleased to note in your statement the very thoughtful concern you have given to legislative intent and recent deliberations in the Congress. As a member of

the legislative branch, this is something we rarely see these days. Could you tell me the procedure by which our embassies will furnish you with information as to what countries are furnishing governmental assistance to North Vietnam?

Mr. SAUER. Oh, I won't be able to answer that, Mr. Derwinski, except to say that I just suspect and guess that our agencies are in a position to know, and that it is no secret in the countries to which they are accredited that the respective governments are furnishing aid to Vietnam, and they are just going to answer straightforward on the basis of known facts. I just suspect that this is the way they will answer it.

Mr. DERWINSKI. Now, Mr. Balderston, you are, I take it, the European expert. Do you have any details you could supply us with about how our embassies behind the Iron Curtain might go about determining this?

**STATEMENT OF WILLIAM S. BALDERSTON, CHIEF, EUROPEAN DIVISION, EXPORT-IMPORT BANK OF THE UNITED STATES**

Mr. BALDERSTON. No, sir; I have no knowledge of what contacts they might have, or how they might proceed to develop the information we are seeking.

Mr. DERWINSKI. Of course, this is, I appreciate, a relatively new development, so it will take a month or two to get something working.

One other question, Mr. Sauer: Continual reference is made to countries "other than Yugoslavia." Now, I appreciate the State Department position that Yugoslavia isn't a Communist country, although it is pretty hard to tell a good American Serb or Croat that this is the case. But Yugoslavia makes no bones about the fact that they are supporting the North Vietnamese against the so-called imperialistic American aggression, even though they may not have a representative in Budapest at the red conference. So I assume you will leave this up to the State Department to advise you whether or not Yugoslavia is furnishing goods to North Vietnam?

Mr. SAUER. We are making the inquiry in the case of Yugoslavia, even though the popular impression is that they are not assisting North Vietnam. We are making the investigation; yes, sir.

Mr. DERWINSKI. And since this second amendment, as you referred to it, is really quite a broad amendment, you would have to make this inquiry for almost any country in the world.

Mr. SAUER. Oh, this is very true. I have omitted this point in my statement, because I was addressing myself to the Communist countries, but we are making this inquiry for all the countries we are doing business in, which is virtually all the free-world countries. That is correct. Again, we are given to understand that there are no countries furnishing goods and supplies to North Vietnam other than perhaps humanitarian supplies through the Red Cross which, according to the legislative history, would not require us to cease extending guarantees to a particular country doing that.

Mr. DERWINSKI. Thank you.

Thank you, ma'am.

Mrs. KELLY. Mr. Taft?

Mr. TAFT. Mr. Sauer, the name of your bank is the Export-Import Bank. I wonder if you could tell us about the import end of it. I am not sure I understand about it, and I would like to have an indication as to how you do operate in the field of imports, if at all.

Mr. SAUER. I will be glad to answer that if I may be somewhat facetious.

The name of our bank, as of 1 o'clock today, is "The Export-Import Bank of the United States." Congress put "of the United States" on it, and we are very pleased to have that.

The name Export-Import Bank goes back to 1934, when the bank was formed. At that time, although the emphasis even then was on exports, it was envisaged that we might engage in import transactions in the form of direct assistance for things being brought into this country.

Actually, we have done virtually nothing in this field. We have found that the commercial banking system is adequate for this purpose. They can handle the imports coming in, and they can get liens on them or on the documents involved, so there is no dearth of financing for imports.

We have done one or two things in special circumstances. I recall about 8 years ago we financed some salted fish from Iceland. However, we continue to carry "Import" in our name because it makes a nice cable address, "Ex-Im Bank," but we are not doing much if anything in the import field.

Mr. TAFT. In regard to the Fiat deal, do you have any knowledge as to whether or not the \$25 million amount that was not placed with U.S. firms would actually have been bought in the United States, or is this merely from the application?

Mr. SAUER. Merely from the request that was originally filed, for \$50 million.

Mr. TAFT. You don't know of any orders being canceled, for instance, in this regard?

Mr. SAUER. I do not, sir.

Mr. TAFT. In the absence of the amendment which has been passed, for that matter, prior to the amendment, in making a determination as to a third country, as in the Fiat deal, does the Bank feel that it has any right to consider factors relating to whether or not the goods are going to another country, or are going to a country that might be shipping to a nation in armed conflict with the United States?

Mr. SAUER. Well, yes; we did. As a matter of policy, to the extent we knew of cases, we turned them down. We have had several applications for shipment of goods to be assembled in friendly countries that were going on into—well, not North Vietnam, but to other Communist countries, and we have said "No." We have turned them down.

We have taken the position that we wouldn't do indirectly what we couldn't do directly. This was prior to the time of the President's findings that we extend guarantees to those countries.

Mr. TAFT. You felt that the prohibition that was already in the law then applied to you?

Mr. SAUER. Well, then it was a matter of policy more than the law. Our law, you see, has always permitted us to do these things, but policywise, for years, the Bank has not done anything in the Com-

munist world, other than Yugoslavia, until the President made the finding in 1964.

Mr. TAFT. How did you come to make these decisions? I mean, what criteria did you use in arriving at a decision like that?

Mr. SAUER. We were informed that the export to X country of locomotive parts were going into locomotives that were to be shipped to Y country, which was a Communist country.

Mr. TAFT. There was nothing in the act that said you should use such criteria; was there?

Mr. SAUER. No, but the Export-Import Bank has always been governed, both under Democratic and Republican administrations, by the existing foreign policies of the particular administration, and the administration at that time, I believe, always was—

Mr. TAFT. This has been a matter of informal pressure, then; nothing that is in the law itself?

Mr. SAUER. I wouldn't say it was pressure, Mr. Taft; it was an established policy of both the Republican and Democratic administrations that we would not finance or extend credits to the Communist-bloc countries.

Mr. TAFT. But it related, then, to what the President wanted? Is this the case?

Mr. SAUER. Well, to the extent the administration is the President, but let me point this out, sir: Despite the President's finding on Bulgaria and these other countries, the President of the United States has never found that we should extend credits or guarantees to the U.S.S.R. for other than agricultural products.

In other words, if yesterday we had an application either directly or indirectly for certain products other than the Fiat case for U.S.S.R., there was no finding to support our doing it.

Mr. TAFT. Was there anything in the legislation that said the Exim-bank should pay attention to the President?

Mr. SAUER. Oh, yes.

Mr. TAFT. Insofar as these kinds of questions of foreign policy?

Mr. SAUER. Yes, our legislative history since 1934 has been replete with statements both on our part and on the part of our committees, both in the Senate and the House, that we should be governed by the foreign policies of the United States.

We have said once, we have said many times, to our committees, that the State Department can veto any loan that we might want to make, if it advances foreign policy objections. The State Department can't tell us to make a loan, but it can veto our making a loan on the ground that it is contrary to the foreign policy of the United States. This has been accepted, sir.

On the other hand, the theory was never pressed to the point where the Bank would be directed to make a loan to meet foreign policy objectives if the Bank found that the loan was unsound or otherwise did not qualify under the Export-Import Bank Act of 1945.

Mr. TAFT. I find this point rather interesting, and I don't think it has been brought out before in the discussions on the Export-Import Bank. I wonder if this could be substantiated with a short memo of some sort?

Mr. SAUER. Yes, sir. We would be very happy to.

Mr. TAFT. In the record, as to the legislative history, and to the particular sections of the law prior to this amendment which were involved.

Mr. SAUER. We would be glad to. I just mention that there is nothing in our act about Red China, that is, prohibiting us from doing anything with Red China. It is just taken for granted that we shouldn't as a matter of policy.

Mrs. KELLY. Mr. Taft, in that question that you just asked, for supplemental views, may I ask, you want to know the effect of the congressional enactments relating to the Ex-Im Bank operations, what effect they have on our foreign policy and vice versa? Is that what you want to know?

Mr. TAFT. No, it is a more technical question than that, Madam Chairman.

Mrs. KELLY. Do you want to rephrase it?

Is it clear, Mr. Sauer?

Mr. TAFT. The question is, prior to the amendments that we are discussing, the prohibitions, what was the authority, and the history of the authority, for getting into considerations of foreign policy in granting or not granting loans from the Bank?

(The information requested follows:)

#### CONSIDERATIONS OF FOREIGN POLICY IN EXPORT-IMPORT BANK FINANCING

1945

Hearings were held on July 17 and 18, 1945, before the Banking and Currency Committee of the U.S. Senate, 79th Congress, first session, on H.R. 3771, which is the Act creating a full-time Board of Directors of the Bank and authorizing a capital structure of some \$3.5 billion. Lengthy discussions took place between Senator Robert A. Taft, a member of the Committee, and Assistant Secretary of State Acheson, and Leo Crowley, Chairman of the Board of Trustees of the Bank and Administrator of the Foreign Economic Administration. Senator Taft was questioning whether the National Advisory Council, set up under the Bretton Woods Agreements Act, as well as an Advisory Committee composed of the same persons (Secretary of the Treasury, Secretary of State, Secretary of Commerce, Chairman of the Board of Governors of the Federal Reserve and Chairman of the Board of Directors of the Export-Import Bank) could pass judgment on loans being made by the Export-Import Bank. Senator Taft pressed his questions to the point of asking whether the Advisory Committee or the National Advisory Council could advise against the Bank's making a loan to Czechoslovakia, for instance. Although Mr. Crowley questioned whether the Committee could go so far as to veto the loan, Secretary Acheson said the Committee definitely could if it was necessary to coordinate. The implication is clearly left that Senator Taft agreed with this conclusion. The complete discussions are contained in the Committee report issued on the Bill and there were additional statements which are contained in the Congressional Record of July 20, 1945.

1951

In 1951, Mr. Herbert Gaston, then Chairman of the Board of Directors of the Bank, was testifying before a Subcommittee of the Committee on Banking and Currency of the United States Senate, 82nd Congress, first session, on S. 2006, a Bill to increase the lending authority of the Bank and to extend its corporate life. In the course of the hearings under questioning by Senator Douglas, a member of the Committee, Mr. Gaston made the following statement:

Senator DOUGLAS. From whom do you get advice as to the political aspects of your loans? From the State Department?

Mr. GASTON. From the State Department; yes sir. Of course, we share some matters of common knowledge which enter into the matter of making loans, political knowledge, but we do consult the State Department. In fact, the State Department is represented on the Board by an Assistant Secretary of State who

is a member of the Board. That is Mr. Willard Thorpe, the head of the Economic Division, and he is a very competent adviser on economic as well as political matters, and frequently consults the political desk as to how they feel about a loan for a certain purpose to a certain country.

Senator DOUGLAS. Are there any cases in which the State Department wanted you to make a loan which you did not make?

Mr. GASTON. Yes; there have been.

Senator DOUGLAS. Have there been any cases in which the State Department did not want you to make a loan which you made?

Mr. GASTON. We have an unwritten rule that we allow the State Department a veto when the veto is on strictly political grounds. If the representative of the State Department says "Don't make this loan; we don't think it's a good risk; we don't think the economics of the situation are right," he is just one member of the Board. When he says "Don't make this loan; it is contrary to the political interests of the United States," we consider that final.

Senator DOUGLAS. In other words, they can prevent a loan being made on political grounds?

Mr. GASTON. Yes, sir.

Senator DOUGLAS. But they cannot force you to make a loan?

Mr. GASTON. That is true.

Senator DOUGLAS. If in your judgment it is unsound?

Mr. GASTON. That is right.

Senator DOUGLAS. But their opinion is rather persuasive, naturally, on your considerations as to certain loans, persuasive but not controlling?

Mr. GASTON. That is right. If they say to us that it would be a very good thing for the United States to make a loan to Iran; it would be a very good thing for the United States to make a loan if you can find that they have the repayment capacity, we look very carefully at their repayment capacity to see if we can find it. We look at it hopefully, but we look at it from a different aspect than if they had said to us: "Well, Iran wants you to make a loan, but there is no sense in doing it. We don't see any particular sense in it."

They are two quite different cases. We look more sympathetically at a loan when they say that there are good political reasons why it should be made, but we try not to make loans which are bad loans simply because they appear to be in the political interest of the United States or are said to be in the political interest of the United States.

1957

On March 19, 1957, Mr. Samuel Waugh, then Chairman of the Board of Directors, testified before the Committee on Banking and Currency, House of Representatives, 85th Congress, first session, on H.R. 4136, a Bill to extend the corporate life of the Export-Import Bank. Mr. Waugh engaged in a colloquy with Congressman Multer, a member of the Committee, on the question as to whether the Bank takes advice from the National Advisory Council and the State Department. Mr. Waugh made it clear that the Bank does consult with the Department of State on loans and this is sometimes done directly and sometimes through the instrumentality of the National Advisory Council. The discussion is set forth on page 37 of the Committee report of the House Banking and Currency Committee on the Bill.

1958

In 1958, Mr. Samuel Waugh testified before the House Committee on Banking and Currency, 85th Congress, second session, on H.R. 10459, which authorized an increase in the lending authority of the Bank. He engaged in a discussion with members of the Committee on the question of whether the Bank coordinates its lending with the State Department policies. Mr. Waugh answered in the affirmative. These discussions are set forth on pages 31-36 of the Committee report on the Bill.

1963

On February 25 and 26, 1963, Mr. Harold Linder, then and now Chairman of the Board of Directors of the Bank, testified before the House Committee on Banking and Currency, 88th Congress, 1st session, on H.R. 3872 increasing the lending authority of the Bank and extending its corporate life. He engaged in discussions with members of the Committee on the question of whether the Bank

took policy guidance of the National Advisory Council<sup>1</sup> and the State Department. He answered in the affirmative. The discussion is set forth on page 23 of the Committee report on the Bill.

On May 17, 1963, Mr. Linder testified before a Subcommittee of the Committee on Banking and Currency of the United States Senate, 88th Congress, 1st session, on S. 775 and H.R. 3872, which were companion Bills authorizing an increase in lending authority of the Bank and extending its corporate life. He engaged in a discussion with members of the Committee as to what the Bank's position was on the possibility of making a loan to the U.S.S.R. He made the point that in considering any such loan the Bank would be guided by policies of the Administration. The discussion is reported on pages 23 and 24 of the Committee report on the Bill.

Mr. FRELINGHUYSEN. If you would yield, Mr. Taft, I would like to get back to the question I thought I had asked, but I guess it wasn't answered.

You pointed out that the presidential determinations allow the Export-Import Bank to enter into guarantees with certain countries. But the guarantees themselves, the loans that you consider making, are your own determination?

Mr. SAUER. That is correct.

Mr. FRELINGHUYSEN. But in the context of approved governmental policy the green light comes in general terms, that it is all right, for example, to consider transactions with Bulgaria, or Czechoslovakia.

Mr. SAUER. That is all the President—

Mr. FRELINGHUYSEN. On what basis do you make a specific determination with respect to a guaranty? Is this purely a commercial proposition once the green light has been given in the form of a broad presidential determination, or is there some foreign policy consideration which leads you to choose one transaction over another, or to favor one country's application over another?

Mr. SAUER. Well, there have been no foreign policy considerations which led us to choose one country's application over another. We haven't had any such problem in this respect.

Within a given country, we always have to make a judgment, Mr. Frelinghuysen, whether a particular project is economically and financially sound, but the answer to your question is, our role from then on is primarily one of a bank making a determination as to whether we can do this on a sound economic and financial basis.

Mr. FRELINGHUYSEN. You mentioned in your statement that there have been guarantees on a short- and a medium-term basis. What sort of medium-term basis? What does that refer to? Is this purely a commercial proposition, too, that under certain circumstances you feel that it is a good risk on a medium-term basis instead of a short-term?

Mr. SAUER. That is right.

Mr. FRELINGHUYSEN. How do they compare? Do you do it often?

Mr. SAUER. More than that, it depends on the nature of the goods. The heavier goods go 3 to 5 years. That is what we call medium term. Short term are consumer goods, and small items that go from 180 days on up to a year or so.

<sup>1</sup> It might be mentioned that the State Department's viewpoint is most often brought to bear in the National Advisory Council on International Monetary and Financial Problems, which passes judgment as a coordinating body on significant loans of the Export-Import Bank. Hence, the frequent reference in the foregoing excerpts to the National Advisory Council rather than the State Department as such. This is particularly true since 1954, when the Secretary of State ceased to be an ex officio member of the Board of Directors of the Bank.

Mr. FRELINGHUYSEN. Are we more restricted generally than Western Europe in providing these terms?

Mr. SAUER. We have been in the Communist countries. We have limited our guarantees to 5 years. Again excepting Yugoslavia. Western European countries have been extending longer term guarantees to these Communist countries than we have.

Mr. FRELINGHUYSEN. Now, I apologize for taking so much time, but one final question, which I suppose is obvious:

Congress now has completely short-circuited the administration's policy with respect to trade with Eastern European countries by prohibiting it, so long as the war in Vietnam goes on. In other words, the bridges to the East approach is completely out the window.

It is absolutely impossible to engage in any kind of business so far as your Bank is concerned.

Mr. SAUER. So far as the Bank is concerned, there is an absolute prohibition.

Mrs. KELLY. Mr. Derwinski?

Mr. DERWINSKI. Madam, just like Mr. Frelinghuysen, I thought I had the question answered, but now I want to double check it.

Referring once again, Mr. Sauer, to this petroleum plant in Rumania, which was involved in your financing, would your records indicate whether the determination by the President, made at the recommendation of the State Department, was made because Rumania had indicated they wanted financing of the petroleum plant, or was the determination made in an atmosphere of general good will and diplomacy in which they immediately took advantage of it by asking for financing of this petroleum plant?

Mr. SAUER. Well, it was more the latter—in fact, even more so the latter. It followed a Rumanian economic mission that was invited to this country several years ago, and negotiations and discussions were had with the various Departments including State and Commerce, about expanding trade, a consular treaty, and several matters.

Following successful conclusion of those discussions, the State Department recommended to the President that he find it to be in the national interest that the Export-Import Bank extend guarantees to Rumania.

It was about at that juncture that the Rumanians presented to us a list of projects, quite lengthy, and in various amounts. Of all of them, they picked out the petroleum as the one we should start with.

Mr. DERWINSKI. "They picked." Now, who is the "they", the Rumanians or the State Department?

Mr. SAUER. The Rumanians.

Mr. DERWINSKI. You are going to supply some material for the record for Mr. Taft's request. At that time, can you also give me, if your records would indicate in some chronological order, the dates that this Rumanian mission made its contact here in relationship, then, to the date of the presidential determination, and then the approval of the financing of the petroleum plant?

Mr. SAUER. We can do that. We would be glad to do that.

Mr. DERWINSKI. Thank you.

(The information requested follows:)

A CHRONOLOGY OF EVENTS LEADING UP TO A GUARANTEE BY THE EXPORT-IMPORT BANK OF A TRANSACTION INVOLVING THE EXPORT FROM THE UNITED STATES TO RUMANIA OF A PETROLEUM CRACKING PLANT AND ATTENDANT TECHNICAL SERVICES

May 18, 1964: The Rumanian Trade Delegation arrived in the United States at the invitation of the United States Government to have talks with the Department of State and other agencies of the United States Government covering the general subject of enlarged trade between the two countries.

May 21, 1964: After a series of meetings with the State Department and other agencies, the Rumanian delegation met with representatives of the Export-Import Bank at the Bank. The Rumanians stated they were interested in purchasing U.S. equipment and technical services aggregating from \$200 to \$300 million. Eximbank asked for financial and economic information on Rumania and statement of purchase priorities.

June 1, 1964: U.S.-Rumanian Joint Communique announcing various steps to encourage trade between the two countries, such as establishing a general license procedure and expanding the activity of the New York Trade Office of the Rumanian Mission in the United States.

June 15, 1964: President Johnson made a determination, which was sent to the Congress, that it would be in the national interest for Eximbank to guarantee short and medium-term credit sales of U.S. products and services to Rumania. (On February 4, 1964, the President had determined it would be in the national interest for the Bank to guarantee sales of agricultural products to Rumania.)

Summer 1964: Bank representatives had several discussions with Universal Oil Products Company, Des Plaines, Illinois, regarding the construction and financing of a catalytic cracking plant in Rumania and told Universal that if the Rumanians wished to obtain financing for this plant, the Rumanians would have to approach the Bank with a specific request.

January 1965: A Rumanian delegation came to the United States and met with Eximbank and discussed the possibility of Eximbank guarantees for two synthetic rubber plants and the petroleum cracking plant. During the winter and early spring of 1965, Eximbank had additional meetings with the Rumanians and studied in detail the proposal for the catalytic cracking plant (the synthetic rubber plants never materialized).

April 26, 1965: Eximbank authorized a guarantee of \$20 million for the catalytic cracking plant.

Mrs. KELLY. Any further questions?

Mr. TAFT. Madam Chairman, one further question.

Mrs. KELLY. Mr. Taft.

Mr. TAFT. In making your determination as to what loans to grant, Mr. Sauer, do you take into consideration the competitive factors between U.S. products and products of other countries?

Mr. SAUER. Yes. Our only reason for being, really, is to assist American exports. The bank is not here to assist Rumania, as such, or Hungary, or any free world country, actually. It is here to help the American exporter to sell his products in foreign countries. So when the going is toughest, that is when we try to give the most help.

Mr. TAFT. Well, let me elaborate a little on that.

Mr. SAUER. Yes.

Mr. TAFT. Supposing there were a country with which the United States is friendly, which had a considerable amount of manufacturing in product X, and product X is also being produced in the United States.

Where it appeared that the United States might take a considerable amount of that business with Export-Import Bank financing, would you sometimes turn down Export-Import financing because of the possible adverse effect upon the economy of the friendly nation?

Mr. SAUER. I have never known of a case, Mr. Taft, where we have had that precise question come up.

Mr. TAFT. This would be a foreign policy consideration.

Mr. SAUER. I understand your question; yes.

Mr. TAFT. On which the President might take a position, and if the President or the State Department took a position, I presume what you said before would apply.

Mr. SAUER. That is correct. That is what I said.

Mr. TAFT. But you wouldn't make that determination yourself, as a bank.

Mr. SAUER. No; I think in that case we would look to the State Department for policy guidance, and I suppose State's guidance would be that in order to help this American exporter, you are bringing, or helping to bring ruin to a friendly power, a friendly nation, and—if not "ruin" them, you are certainly prejudicing their ability to live, in competing with their product.

We have never had the case. But there is no gainsaying the fact that we are competing with very friendly countries in third countries for the market there, very friendly countries, such as the United Kingdom.

Mr. TAFT. Thank you, Mr. Sauer.

Mrs. KELLY. Thank you, Mr. Taft.

I have two short questions, Mr. Sauer, before the subcommittee adjourns until tomorrow—at 2 o'clock in the same room—and at that time we will hear the Department of Agriculture, the Honorable Dorothy H. Jacobson.

Mr. Sauer, there are two questions that I would like to have rephrased, or perhaps taken up, at least: How does the Bank get into the question of the end use of the products exported with the help of its guarantees?

How? What procedures are used to prevent the transshipment of such products, and who provides the assurances, the purchasing country or the U.S. exporter, and who sees to it that these assurances are complied with?

Mr. SAUER. This is a difficult area, but we can't escape it, now that we have these two amendments. We propose to follow this procedure, so far as the Bank is concerned:

When we are dealing directly with a foreign country, that is, when we are extending credit direct to it, we will exact from the borrower, whether it be the government or a private company that is borrowing the money, evidence, together with covenants, that the products financed will be used in the country in question, and will not be transshipped. We think we can pretty well close the door in such cases.

The problem arises in these exporter guarantees and insurance transactions that I mentioned before. We don't deal with the foreign buyer. We just deal with the American exporter. In other words, a machine tool manufacturer from Ohio comes in, either to us directly or to the insurance company in New York, with which we cooperate, or a bank. It says, "I would like to ship some machine tools to Italy for use in the Fiat plant in Italy. Will the Export-Import Bank guarantee it?" Well, that is all we know about the transaction, other than how much and what the machine tools are.

In such cases, we will have to exact covenants from the American exporter to the effect that to, the best of his knowledge and belief, these goods are to be used in the country to which he is selling, and are not to be transshipped to any other country.

Now, there is one added protection which I would like Mr. Glick to speak to, and that is the Commerce procedure when they issue export licenses. They have a transshipment prohibition, I believe and, of

course, where there is a license required on the items which we finance, this procedure will further protect us.

Mr. GLICK. That is right. As you know, under the Export Control Act, Commerce Department stamps the bills of lading and the invoice that the products covered by this license cannot be transshipped to any other country or specific countries. It depends on the product which is being licensed, and what prohibition applies.

So there is in existence right now the export control regulation prohibiting transshipment. Our problem, of course, is broader, since it doesn't relate to any specific product, and will have to utilize the procedure Mr. Sauer outlined, in addition to the export control regulation.

Mrs. KELLY. Do I deduce, then, that you will hold the U.S. exporter liable?

Mr. GLICK. To the extent he knowingly misrepresents, Mrs. Kelly, we will have to.

Mrs. KELLY. I see, Mr. Sauer, we have referred earlier to the several laws which impose trade restrictions and controls. Do you find them cumbersome and complicated and contradictory, and if so, how could they be improved to make your work less difficult?

Mr. SAUER. I understand the question. I want to frame my answer so that I don't appear facetious.

You see, we in a sense run away from all these regulations. We put the burden on the exporter and the buyer. We take the position that although we are part of the U.S. Government, we really are not involved in issuing export licenses or this or that or the other thing.

We put up the money, and it is their problem to go to Commerce and get the export license, see that it is issued, et cetera. We really don't become involved in that directly.

Now, when there is a foreign policy consideration involved, something that says that we shouldn't do something in a particular country, the State Department advises us. So we play rather a restricted role in this whole field of foreign trade. We don't have anything to do with GATT, we don't frame the procedures on export license and control, we don't play a role in listing the items under license and those that are free. All these are other agencies' functions.

Our function solely is—when it is determined that policywise and so far as export control is concerned, something can be exported—our function is to say whether or not the Export-Import Bank can make a loan for the purpose of enabling that product to be sold. That is about the extent of our responsibility and activity.

Mrs. KELLY. Well, who is responsible for this?

Mr. SAUER. Well, either Commerce in its field, or the State Department in its broader field, the Treasury Department or whatever other agencies or departments may have direct concern.

The exporter and the borrower must, of course, comply with these laws. They can't take the goods out unless, for instance, they have a license, if one is required.

Mrs. KELLY. Let's assume you find someone who isn't complying with the law. What do you do then?

Mr. SAUER. We would go to the Department of Justice.

Mrs. KELLY. You go to the Department of Justice?

Mr. SAUER. Yes.

Mrs. KELLY. Thank you.

Any further questions?

At this time I would like to call on one of the most distinguished members of the Foreign Affairs Committee, Mrs. Bolton.

Mrs. Bolton, I understand you are accompanied today by a guest from abroad.

Mrs. BOLTON. I have the privilege of bringing to this meeting a very outstanding woman from the German Parliament, Madam Erika Wolff.

Mrs. KELLY. We welcome you here.

Thank you, Mrs. Bolton, and thank you, gentlemen.

The subcommittee will stand adjourned until tomorrow at 2:00 o'clock.

(Whereupon, at 3:10 p.m., the subcommittee adjourned, to reconvene at 2 p.m., Wednesday, February 28, 1968.)



## EAST-WEST TRADE

### 5. Department of Agriculture

WEDNESDAY, FEBRUARY 28, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 2:15 p.m., in room 2218, Rayburn House Office Building, Hon. Edna F. Kelly (chairman of the subcommittee) presiding.

Mrs. KELLY. The subcommittee will please come to order.

We meet today to continue our hearings on East-West trade. Although the subject of "Agriculture" falls under the jurisdiction of another committee, the impact of agricultural exports on our foreign policy has long been of interest to our committee.

Furthermore, the concept underlying Public Law 480, which accounts for a substantial portion of our agricultural exports, did indeed originate with the Committee on Foreign Affairs in the early 1950's.

We are pleased to welcome today Mrs. Dorothy H. Jacobson, the Assistant Secretary of Agriculture for International Affairs. She is accompanied by Mr. Richard DeFelice, Assistant Administrator, International Trade, Foreign Agricultural Service.

Mrs. Jacobson, I had the opportunity to review your statement prior to the hearing, but I do not know whether any other members were able to do so. However, because it contains a very lucid and comprehensive statement of issues which are of concern to our committee, I would like to hear you read it in its entirety.

#### STATEMENT OF DOROTHY H. JACOBSON, ASSISTANT SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS

Mrs. JACOBSON. Thank you, Madam Chairman, and members of the committee.

I will read the statement and then answer to the best of my ability any questions you may ask. I may have to refer some of them to Mr. DeFelice.

My statement has to do with the functions and responsibilities of agriculture in relation to East-West trade. It relates to trade with the Communist countries of Eastern Europe, including the U.S.S.R.

For convenience, I have divided the subject into four parts: Our efforts to expand commercial agricultural trade; Public Law 480 and the Communist countries; agriculture's participation in export controls; and potential for agricultural sales to Communist countries.

## EXPANSION OF COMMERCIAL AGRICULTURAL TRADE

American agriculture has been going through a period of highly successful efforts to expand its foreign markets, now about 50 percent larger than they were in 1960. In actual value, American agricultural exports now are running at a rate of \$6.7 billion or more a year, a rate totally unprecedented in our export history. About 1 acre out of 4 of our harvested cropland is now producing for export.

These expanded foreign markets have a significance that cannot be overlooked.

They provide an important outlet for our agricultural productive capacity and greatly lessen the land-use adjustment problems our farmers would have in the absence of such outlets.

They provide important income for our farm and city people, and help to strengthen market prices.

They are making an important contribution to our country's balance of payments. Our agricultural exports so greatly exceed agricultural imports that the resulting favorable trade balance from agriculture is contributing more than that from any other sector of our economy to help meet the balance-of-payments problem.

These expanded foreign markets for American farm products have been developed almost exclusively in the free world. We have worked to reduce trade barriers so that our products could enter free world countries with minimum restraints. We have promoted sales in such countries through market promotion programs—which are cooperative programs involving Government, agriculture, and private trade.

In these market expansion efforts, however, the Communist countries have virtually been an island set apart, little touched by our market development efforts.

Our trade in agricultural products with Eastern Europe, including the Soviet Union, continues to be relatively small. Our exports to the area in recent years—with the exception of 1964 when we sold \$200 million worth of wheat and feed grains as a result of the short 1963 Russian grain crop—has averaged about 3½ percent of total U.S. agricultural exports.

To the Soviet Union, our export sales are averaging \$35 million a year, mainly for tallow and hides. Our agricultural imports average \$2 million a year, mainly cotton linters and licorice root.

To Poland, we are selling \$35 million a year worth of wheat, feed grains, soybeans and meal, hides, and tallow. We are buying \$41 million worth in return, mainly canned hams and pork, and casein.

To Czechoslovakia, we are selling \$28 million a year of feed grains, soybeans and oil, and hides. We are buying \$2 million worth in return, mainly canned hams and pork.

To Yugoslavia, we are selling \$110 million a year of wheat, cotton, soybean meal and oil, and hides. We are buying \$21 million worth of tobacco and canned hams.

The trade relationships are similar for Romania, Bulgaria, Hungary, and East Germany with our agricultural sales to them substantially larger than their agricultural sales to us.

Throughout the free world, our agricultural attachés play a prominent part in the market development programs, including trade lib-

eralization and trade promotion. This role is insignificant in Eastern Europe.

We maintain agricultural attachés in only three Eastern European countries—the Soviet Union, Poland, and Yugoslavia.

Our attaché in Moscow spends a majority of his time on agricultural intelligence, keeping us informed of Soviet crops and markets, its export-import trade, and its competitive position in the agricultural items it exports, such as grains and oil seeds.

Our attaché in Warsaw also spends considerable time on agricultural intelligence. In addition, he helps to arrange the dollar credit sales we have been making of such items as feed grains, cotton, rice, and wheat.

Our attaché in Belgrade spends about half his time on agricultural intelligence. Also, he services CCC dollar credit sales such as of cotton and wheat. In addition, because Yugoslavia is a more open market than we find elsewhere in Eastern Europe, he spends some limited time on market expansion activities.

The agricultural intelligence function of our attachés has a unique value in Communist countries because of the closed societies with which we are dealing. We know from long experience that we cannot rely on official reports of these governments for our agricultural data. In appraising such things as crop conditions, however, our agricultural attachés are able to come up with firsthand, on-the-scene appraisals that we find extremely useful. This part of the world produces such a high proportion of the world's total agricultural production that it has a real impact on the world supply and demand situation.

#### PUBLIC LAW 480 AND THE COMMUNIST COUNTRIES

About one-fourth of our country's agricultural exports move under Public Law 480 programs. These programs include export sales of our farm products for local currencies, sales under long-term dollar credits, donations, and certain barter transactions.

Here again, however, except for barter, these are free world programs and currently are not in effect with the Communist countries.

The earlier Public Law 480 program did provide a basis for substantial shipments of wheat, feed grains, and cotton to Poland and Yugoslavia until last year. These countries are no longer eligible for Public Law 480 programing under existing prohibitions against Public Law 480 sales to countries trading with Cuba and North Vietnam.

Poland, from June 1957 through February 1964, entered into a number of title I foreign currency sales agreements, for a total of \$538 million (including applicable ocean transportation costs). Commodities were principally wheat and flour, cotton, feed grains, fats and oils, and tobacco. The local currencies thus generated were all earmarked for U.S. uses. To the extent such currencies are not so used, they are to be converted into dollars.

Poland, from 1958 through June 1966, received donated agricultural products in the amount of \$40 million.

I might add that these donated products are those provided through voluntary agencies under Public Law 480. They are not donated to the government but they are donated to a voluntary agency such as CARE or a church agency to provide relief and emergency feeding, and so on.

And Poland, from 1962 through June 1966, also purchased U.S. agricultural products totaling \$27.7 million under barter arrangements.

Yugoslavia had a similar record of Public Law 480 transactions. From January 1955 through April 1966, Yugoslavia entered into Public Law 480 sales agreements totaling \$927 million (including applicable ocean transportation costs), \$642 million under local currency sales, and \$285 million under dollar credit sales agreements. Commodities included wheat and flour, cotton, fats and oils, and smaller amounts of fruits and vegetables, dairy products, and dry beans.

Under the Public Law 480 donation program, Yugoslavia has received \$29 million worth of food grains and fats and oils as emergency relief and \$125 million worth of wheat flour, cornmeal, vegetable oil, and other commodities through U.S. voluntary agencies.

Yugoslavia, from 1954 through June 1967, received \$34 million worth of agricultural commodities shipped under barter contracts.

Public Law 480 transactions, except for barter, have come to a halt with Yugoslavia and Poland under existing legal requirements.

Public Law 88-638, approved October 8, 1964, amended Public Law 480 so that any nation dominated or controlled by a Communist government was no longer eligible to buy our commodities for local currencies. This precludes Public Law 480 local currency agreements with Poland. However, other amendments would have authorized dollar credit agreements with Poland, but with a maximum repayment period of 5 years instead of the generally permissible maximum of 20 years. Poland has not requested commodities under the program since this provision went into effect.

The Agriculture Appropriation Act for fiscal year 1967 included a prohibition against use of funds appropriated by that act to formulate or administer programs to sell agricultural commodities under title I or title IV of Public Law 480 to any nation which sells or furnishes or which permits ships or aircraft under its registry to transport to North Vietnam any equipment, materials, or commodities so long as North Vietnam is governed by a Communist regime.

Also, in the fall of 1966, Public Law 480 was further amended to define countries eligible for sales agreements to exclude nations having trade and shipping with Cuba as well as with North Vietnam. However, this amendment includes a provision permitting the President to determine that sales agreements are permissible in the national interest if the trade with Cuba involves nothing beyond "medical supplies, nonstrategic raw materials for agriculture, and nonstrategic agricultural or food commodities." This waiver authority does not apply in the case of trade with North Vietnam.

This latter amendment has had the effect of excluding Poland and Yugoslavia from countries eligible for Public Law 480 sales agreements.

#### AGRICULTURE'S PARTICIPATION IN EXPORT CONTROLS

The Export Control Act of 1949, as amended, provides the basic U.S. policy governing commercial exports to Communist countries. Whereas the Department of Commerce has the primary responsibility for implementation of the provisions of this act, as a member of the

Advisory Committee on Export Policy the Department of Agriculture plays a major policy role in matters affecting the exports of agricultural commodities and machinery, and I might add technology, related to the agricultural sector.

The Export Control Review Board is composed of the Secretary of Commerce, the Secretary of State, and the Secretary of Defense. We are not members of the Board, but participate in its activities when matters of interest to Agriculture are under consideration.

I might insert here that the part of the Export Control Act that brings agriculture more specifically into this field is the amendment, which I think was made in 1962, that concerned exports that would contribute to the economic as well as the military potential of the nations concerned.

In 1962 the Export Control Act was amended to read that it relates to those exports that would make a "significant contribution to the military or economic potential of such nations which would prove detrimental to the national security and welfare of the United States." That addition of "an economic potential" was what brought the Department of Agriculture into this consideration.

Virtually all nongrain agricultural commodities can be exported freely without validated license to Albania, Bulgaria, Czechoslovakia, East Germany, Estonia, Hungary, Latvia, Lithuania, and Russia. Certain other commodities still require specific licenses, including wheat and feed grains. No agricultural commodities require validated licenses for shipment to Yugoslavia, Poland, or Rumania.

We in the Department of Agriculture have recommended the relaxation of export controls on shipments of agricultural commodities with commercial export potential to the Soviet Union and other European Communist destinations. However, because of the nature of the shipping requirements for wheat and feed grains, these products continue to require export licenses. The Department of Commerce feels that liberalization of the licensing requirements on grains commodities would make implementation of such shipping requirements virtually impossible.

Our position on exports of agricultural and related machinery equipment, plants, and technological data is governed by the nature of the item requested. If the particular machine, equipment, or technological data sought by a Communist nation can readily be purchased elsewhere, we could gain nothing by prohibiting its export. Under such circumstances, a denial would merely take business away from U.S. exporters, but would not prevent a contribution being made to the economic potential of the country concerned.

But licenses are also sought for exports of advanced machinery, plants, and technology which could contribute substantially to economic potential and which are not readily obtainable from sources outside the United States. This presents a problem in which our decision must be based on recognition that, in a cold war contest with an opposing ideology that admittedly and inextricably combines economic and political methods and goals, anything that strengthens the opposition weakens our comparative position—and this is therefore detrimental to our security and welfare unless it can be accompanied by something which correspondingly strengthens our own position.

# POTENTIAL FOR AGRICULTURAL SALES TO COMMUNIST COUNTRIES

As pointed out earlier, American agriculture has not been making a strong play for markets in Communist countries. Most of our marketing efforts have been directed toward the free world.

There would, however, be a potential for increasing agricultural exports to the European Communist countries outside of the Soviet Union if conditions should make it possible to relax existing restraints.

I might add here that I am referring to "outside of the Soviet Union" because the Soviet Union itself is one of the greatest grain producers in the world. It produces much more wheat, for example, than we do, and it exports some of this to the Eastern European countries in normal years. For our agricultural grain exports, then, under normal years we would not look to the Soviet Union.

The market that we are considering here is made up of about 120 million people, exclusive of the Soviet Union. Incomes of these people have been increasing in recent years at an annual rate of about 4½ percent. As their incomes have been increasing, they have been upgrading their diets and placing more stress on consumption of livestock products.

Eastern Europe and the Soviet Union are major world grain producing countries but in recent years have also been net importers. In the years ahead, we look toward increased production of animal products and increasing feed grain and protein meal requirements in the Eastern Zone countries. Particularly in those years when the area has poor crops, it will need to import feeds to help support its expanding livestock economy. Our ability to capture an important share of this business will depend on our ability to meet competition from other suppliers, including the terms and conditions under which we attempt to trade.

Our greatest potential for increased exports to Eastern Europe is in grains. In order to realize this potential we would need to enter the market on a conventional competitive basis with no special cost or regulatory hindrances. This business might develop slowly, since other exporters are already well established in the market. But the United States could probably achieve a reasonable share within 3 to 5 years. Our share of this grain market, depending on weather and import requirements, could conceivably reach 3 million tons annually by 1970-71, and even as high as 5 million tons in years of poor crops in the area.

The following are some of the considerations that will determine our actual shipments of agricultural products to Communist countries.

## *Most-favored-nation treatment*

Poland and Yugoslavia are the only Eastern European countries that enjoy most-favored-nation treatment from the United States. Products from nations not receiving our MFN treatment must pay higher import duties and therefore are less competitive in our domestic markets. This, in turn, sharply lowers their volume of sales and earnings, and reduces their financial ability to buy from us.

It is assumed that any change with regard to the granting of MFN privileges to Communist countries would have to be accompanied by commitments on their part that our products, including our agri-

cultural products, would receive nondiscriminatory treatment. And we would probably want to follow this up with periodic reviews so that if performance is inadequate, we could take appropriate measures.

#### *Shipping requirement 50-50*

Under our current export regulations, 50 percent of all wheat exported to the Soviet Union and Eastern Europe, and 50 percent of all feed grains to the Soviet Union, must be carried on U.S.-flag vessels.

Depending on the point of export and size of vessel, U.S.-flag vessels charge \$9 to \$12 a ton more than do foreign-flag vessels. In a hypothetical shipment to Russia, transport on a U.S.-flag would increase the cost of wheat by 12 to 16 cents a bushel and corn or grain sorghums by 11 to 15 cents a bushel. Since we are talking here about competitive commercial trade, it becomes apparent that the 50 percent shipping requirement effectively precludes selling U.S. grains in these markets except under circumstances of dire need and nonavailability from other suppliers.

We are sympathetic with the basic purpose of the 50 percent shipping requirement. We clearly recognize the need for a modern and strong U.S. merchant marine and we support appropriate measures for helping to bring this about. We seek to cooperate in developing measures under which both the maritime industry and our competitive export position might be benefited.

#### *Export credit programs*

One of the means at the disposal of the Department of Agriculture to compete with other suppliers in Eastern European markets is the export credit sales program of the Commodity Credit Corporation. The first business done under this program with Eastern European countries was in 1962 when feed grains were exported to Poland. From this initial program until March 1966, Poland was the only Eastern European buyer, during which period a little over \$19 million worth of barley, corn, and grain sorghums were exported to that country.

Initially, when first established in 1956, the CCC credit program provided for CCC acceptance of letters of credit issued by U.S. banks only. However, in April 1966, the program was amended to provide for acceptance of letters of credit issued by foreign banks, provided the letters of credit were confirmed at least 10 percent by U.S. banks. Since this change, the Department has established credit lines for several Eastern European countries, including Bulgaria, Czechoslovakia, Hungary, Poland, and Yugoslavia. In all cases where the credit period is longer than 12 months and the bank obligation is issued by a foreign bank, each line of credit must be approved by the National Advisory Council on International Monetary and Financial Policies.

From inception of the CCC credit program in 1956 until the present, approximately \$105 million worth of agricultural commodities have been exported to Poland, Czechoslovakia, Hungary, and Yugoslavia. Of this amount, business done in fiscal year 1967 amounted to approximately \$53 million and involved exports of wheat, feed grains, rice, and cotton. So far in fiscal year 1968 exports to Poland and Yugoslavia have amounted to approximately \$36.6 million. There have been no

exports to Czechoslovakia or Hungary under this program during the current fiscal year. Under lines of credit still outstanding, we expect some additional exports during the remainder of the year.

This is a useful export program. Its terms are commercial with interest rates at or above prime rates in the United States. For letters of credit issued by a foreign bank, the rate of interest is 1 percent higher than for U.S. banks. Unless other considerations become overriding, we believe it to be in the overall interest of our balance-of-payments objectives to use this program wherever helpful and appropriate in selling our farm products in Eastern Europe.

#### *Barter*

Barter exports take place either under Public Law 480 or under the CCC Charter Act. Proceeds from barter exports are used in meeting requirements of Government agencies overseas, thus saving dollars.

Three Eastern European countries are considered eligible to receive our agricultural exports under the barter program—Yugoslavia, Poland, and Romania. From the beginning of fiscal year 1965 to January 1 of this year, our exports under barter to these three countries totaled \$26 million, and included cotton, corn, grain sorghums, and soybean oil.

We do not expect any significant expansion in barter exports to these three countries. If eligibility were broadened to include some of the other Communist countries, however, there would be possibilities for additional exports under this program.

I would like to say in summary that our agricultural exports to Eastern Europe are, at this time, quite limited.

Consumer income and demand in the area continue to rise, however, and there are a number of agricultural products which we produce efficiently and sell competitively which would have potential for expanded sales in the area if times and conditions were to permit us to compete for the business.

Mr. FRELINGHUYSEN (presiding). Thank you very much, Mrs. Jacobson. As Mr. Kelly probably said before I came, she had to leave. She wished to apologize.

Mr. Hamilton, do you wish to lead off?

Mr. HAMILTON. Thank you, Mr. Acting Chairman.

I am not clear on the status of aid under Public Law 480, although you have an excellent statement. Do we have any aid now going to the Communist countries under Public Law 480?

Mrs. JACOBSON. No.

Mr. HAMILTON. Only barter.

Mrs. JACOBSON. And that is not considered aid—actually, we do not deal with the country directly on barter, as you may know. We deal with the exporter and the exporter then makes his arrangements. This helps us, in Europe I think it is mainly purchases of the Defense Department that have been made, say, from Yugoslavia, for which they receive wheat instead of dollars.

Mr. HAMILTON. Is it correct to say that there is no assistance of any kind under Public Law 480 going to any Communist country?

Mrs. JACOBSON. That is right, unless it is some of our donation programs which are through the voluntary agencies and the religious groups with programs that are purely charitable or emergency in nature. Those programs are still going on.

Mr. HAMILTON. And the discretion in those programs rests with the voluntary agencies and not with the U.S. Government?

Mrs. JACOBSON. I would say so, with the exception of the fact that we can't send donations, even through a church, let us say, to a country which has broken relations with the United States. Since last June this has occurred with some of our donations programs. But again, with the donations programs we donate the food to the agencies and they distribute it to the people.

Mr. HAMILTON. Do you have any total estimate of the agricultural exports per year that we lose because of our refusal to deal with Communist countries?

Mrs. JACOBSON. Let me give you some factors involved in that. I don't think I can give you any figure.

It seems to me that we do not lose too much simply because of our refusal to sell to some Communist countries. But, as I indicated here, we have certain other restrictions. For example, in 1964 when Russia bought from us they brought from us only because we were the last available supplier from which they could get wheat. They needed it badly enough to pay the extra cost involved in American shipping requirements. Russia would need to get in serious straits before they would buy from us, as long as they could buy from Canada more cheaply.

However, in the feed grain area, where Canada is not as competitive with us as it is in wheat, with an expanding market as the animal industries increase in Eastern Europe, there we might have more opportunity if it were not for these restrictions.

Mr. HAMILTON. It is your general impression we don't lose a lot in terms of commercial business as a result of these restrictions?

Mrs. JACOBSON. We lose some but not a large proportion as a result of restrictions on trade. I think one ought to add that in cases where the supply is near to the demand for any product, if Canada sells wheat to, let us say Red China, it means that Canada is not trying to sell that wheat, at least in competition, to the potential customers that we have.

Mr. HAMILTON. What are the roles of State, AID, and Agriculture in controlling exports of agricultural products? Is this something that the Department of Agriculture controls or is it done in conjunction with State? How are the decisions made?

Mrs. JACOBSON. Let me answer it in part as follows: The controls all go back to the law, which goes back to the Congress. Within the law the Secretary of Agriculture has certain administrative responsibilities with regard to Public Law 480. In exercising those responsibilities he considers the position of the Secretary of State, who also has responsibilities in connection with Public Law 480.

For example, parts of Public Law 480 with which we are concerned deal with a definition of friendly countries. Some of these provisions have become more specific lately by naming countries. But friendly countries, non-Communist countries, determinations are made in the Department of State because that is its province.

Mr. HAMILTON. Who sees to it that these various restrictions in the law are enforced?

Mrs. JACOBSON. I would say that if they were not enforced we would quickly get criticized.

Mr. HAMILTON. Who has the responsibility? Is it the Secretary of Agriculture?

Mrs. JACOBSON. The Secretary of Agriculture in many areas with regard to Public Law 480, yes. With regard to export controls, the Secretary of Commerce. The Secretary of State or the Department of State has an important role in all of these. The Commodity Credit Corporation, which is under the Department of Agriculture, carries out the business transactions. I think the law is generally observed.

Mr. HAMILTON. That is all, Mr. Chairman. Thank you very much, Mrs. Jacobson.

Mr. FRELINGHUYSEN. Mr. Findley.

Mr. FINDLEY. Madam Secretary, your statement is quite a dramatic demonstration of the role of the Government in our grain marketing. It is obvious that the Department of Agriculture is very active in the merchandising of grain overseas. You have a section here about Commodity Credit Corporation credit sales. It brings to my mind our experience with the United Arab Republic. If I am correct, we had rather substantial CCC credit sales to Egypt which were in being and subject to payment at the time that relations were interrupted.

Can you tell us what the status of those accounts would be at the present time?

Mrs. JACOBSON. I think they are in a status of suspended animation. Isn't that right, Mr. DeFelice?

Mr. DEFELICE. Yes.

Mrs. JACOBSON. We have not had official dealings with the United Arab Republic since relations were severed.

Mr. FINDLEY. Our experience with CCC credit sales has not been uniformly good. Am I correct on that? We have had some bad experiences on credit extension.

Mrs. JACOBSON. We have had some bad experience, but all of the good experiences have never been noticed, you see.

Mr. FINDLEY. Can you tell us what the limitations are on CCC credit sales? Is there a 3-year limitation on credit?

Mrs. JACOBSON. Yes, and many of them are for 6 months and 12 months.

Mr. FINDLEY. Does the rate of interest necessarily reflect the cost of money to the Government?

Mrs. JACOBSON. Yes.

Mr. FINDLEY. It can not be below that amount.

Mrs. JACOBSON. No.

Mr. FINDLEY. Is that not the same general rule as to interest rates that the Export-Import Bank guarantees would provide?

What I am getting at is what is the justification for the Commodity Credit Corporation being engaged in credit extension beyond the borders of our country when a wholly U.S.-owned financial institution, the Export-Import Bank, is in business for that same general purpose?

Mrs. JACOBSON. I do not know whether this will meet your term "justification". The reason why it exists was that it hoped to develop markets by this means. A major purpose of the Commodity Credit Corporation, going back to its creation, was to try to help develop markets for our agricultural products. This market development is a proper function for the Department of Agriculture.

By extending credit for the sale of agricultural products it can begin to build a market that it hopes will be useful.

Mr. FINDLEY. But this also means that Government, itself, is a major element in the world grain market. Why not leave it to the private sector?

For example, Yugoslavia is listed as a country which has had the advantage of CCC credit sales. A manufacturing firm in my district, the Gardner-Denver Co. has had industrial business with Yugoslavia for a number of years. The company carries its own credit. Why does the U.S. Government have to be in the business of extending credit to Yugoslavia? Why not leave it to private trade?

Mrs. JACOBSON. It is the private trade that gets this credit in fact. As you know, now most of our sales of grains come from the private trade. We work through the private trade wherever possible.

Mr. FINDLEY. Yet the credit is provided by the Government.

Mrs. JACOBSON. Yes.

Mr. FINDLEY. Why not let the private trade take the risk? Then the taxpayers would not be holding the bag as they are in Egypt and in Lebanon and elsewhere on credit sales.

Mrs. JACOBSON. The best answer is the one I indicated before, that this is a special credit provision that helps to promote agricultural exports. That does not apply, apparently, to the manufacturing company to which you referred. There is no special law for that.

Mr. FINDLEY. On another topic, under Public Law 480, charitable donations are authorized and carried forward rather extensively. I understand that Poland is the only Eastern European country that received donations. A couple of million gallons of soybean oil was provided through Catholic relief, I think. Can you explain why it would be that only Poland and not the other Eastern countries have benefited from this?

Mrs. JACOBSON. I think the only countries with which we have had any sizable donation programs in Eastern Europe have been Poland and Yugoslavia. The others, well, perhaps there are no voluntary agencies operating and providing donations.

Mr. FINDLEY. Can you tell me why soybean oil was donated to Poland? Why was that commodity selected for donation?

Mrs. JACOBSON. Because the voluntary agency through which it was programed asked for it.

Mr. FINDLEY. And that is the only reason? They did not ask for other things which were not supplied?

Mrs. JACOBSON. I would have to look up to find out what their request included on this particular shipment.

Mr. FINDLEY. Can you tell the committee how Catholic relief actually distributes a shipment like this?

Are they given access to the interior of the country and able to actually to place the donated items in the hands of individual persons within Poland?

Mrs. JACOBSON. I have not seen them operate in Poland. I have seen them operate in other countries. I have seen them actually hand out packages to, let us say, relief families in countries. They are able to operate inside Poland, I know this.

They are able to operate in various cities of Poland and they are responsible for seeing that the products get into the hands of those who are needy and those who will not misuse them.

Mr. FINDLEY. Am I correct that this 50-50 shipping requirement, which you find is an encumbrance to trade development, exists because the commodities shipped are subsidized? Is there any relationship between the fact that we have a Federal subsidy program for wheat and feed grains and the fact that the commodities must be carried 50 percent in U.S. bottoms?

Mrs. JACOBSON. The relationship is only indirect with regard to those shipments that I talked about today.

With regard to shipments under Public Law 480, yes. But I was talking about shipments of wheat and feed grains to the Eastern European Communist countries. These were not being shipped under Public Law 480, therefore they would not be subsidized. Therefore, the relationship of the 50-50 shipping requirement comes in primarily as an effort to help to strengthen our merchant marine.

Mr. FRELINGHUYSEN. If I could ask a much more elementary question, because I don't understand what this requirement really does involve. Do I understand you to say, and I am looking at your statement on page 11:

Under our current export regulations 50 percent of all wheat exported to the Soviet Union and Eastern Europe, and 50 percent of all feed grains to the Soviet Union, must be carried in U.S.-flag vessels.

Does that mean there is no restriction with respect to feed grains to Eastern Europe? Are we only talking about the commodities to these countries, or is there a requirement that grain generally to any country must be transported 50 percent in U.S. bottoms?

Mrs. JACOBSON. No. The legal requirement enacted by Congress relates to subsidized shipments under Public Law 480.

Mr. FRELINGHUYSEN. To any country?

Mrs. JACOBSON. Yes; to any country which is eligible to receive Public Law 480. That is taken care of in the law.

Mr. FRELINGHUYSEN. Why are you referring specifically to the Soviet Union and Eastern Europe?

Mrs. JACOBSON. Shipment of grain cannot be made from this country to the Soviet Union or certain Communist countries in Eastern Europe except under a validated license issued by the Department of Commerce. To ship to the Communist bloc or to the Eastern European countries, with the exception of Poland, Yugoslavia, and Rumania, to ship grains to Czechoslovakia or the Soviet Union requires a license, and the current regulations, not law but regulations, say you can't get a license to export grains to the Soviet Union unless you follow the 50-50 provision that half of this grain shall be shipped in American bottoms where they are available.

Mr. FINDLEY. That is an administrative regulation, then.

Mrs. JACOBSON. Yes.

Mr. FINDLEY. So it is entirely within the province of the executive branch to change it?

Mrs. JACOBSON. Yes.

Mr. FINDLEY. Is it true that today there is no export subsidy paid on wheat to move it into world markets and the same on feed grains? I ask that because it was my impression that there was a relationship between this 50-50 requirement and taxpayer subsidy of commodities.

Mrs. JACOBSON. There is, and that applies to the 50-50 requirement on wheat shipped under Public Law 480.

Mr. FINDLEY. For example, the Soviet shipment was not under Public Law 480, yet there was a requirement of 50-50 U.S. bottoms.

Mrs. JACOBSON. That is an administrative regulation and the reason for the administrative regulation, I might say, was I presume exactly the same as the Congress put it into the law, as an assist to our maritime industry.

Mr. FINDLEY. In any event, the 50-50 complaint really should be directed to the White House, then, should it not?

Mrs. JACOBSON. I was not making it as a complaint. I was stating it as a fact.

Mr. FINDLEY. On page 10, at the bottom, you refer to the most-favored-nations treatment.

Do you feel it would be in the public interest that the United States require that any transactions with Eastern European countries must be covered by guarantees of impartial third-party arbitration of disputes?

Mrs. JACOBSON. I am not sure of the applicability of that question. Certain transactions now are carried out by American companies freely without Government regulations or restrictions. Presumably, they look out for their own interests and they make a contract which is to their advantage as well as to the advantage—

Mr. FINDLEY. Business firms have had some problem in settling disputes as to patents, as to quantity, quality, time arrivals and all. And if they get into a fuss with a Communist country, they quickly find that the business end of the deal in the Communist country and the Government are one and the same thing. So if a dispute is settled by an arbitration court in that country, the free world merchant does not have much leverage.

It has been my hope that as we talk about extending the most-favored-nation treatment to these countries we will insist upon impartial third-party arbitration of disputes as a sine qua non of such arrangement.

Mrs. JACOBSON. Yes. It is my understanding, although this is somewhat outside of the province of agriculture, but it is my understanding that any negotiation with these countries with regard to the MFN would include such provisions as you speak of that would make trade relations easier.

We have to have special relations when we deal with a country where there is state trading, where we can hardly tell the difference between the trading entity and the government.

It is quite logical that we should ask for special assurance of non-discrimination and, I would think, of some fair means of handling disputes.

Mr. FINDLEY. Mr. Chairman, thank you very much.

Mr. FRELINGHUYSEN. Mrs. Jacobson, a couple of brief questions.

I am interested in this 50-50 requirement. You say your description of it is not as a complaint. Yet your pitch seems to be quite clearly that we should consider the potential of Eastern Europe as a market, and that one of the reasons we have difficulty is the competitive disadvantage that this requirement places on us. This would seem to be a suggestion that perhaps it should be modified, that this is not the way to subsidize the merchant marine, which is how you described the requirement.

I don't know enough to know whether that is a fair description or not.

May I reveal my ignorance by asking whether there is any restriction on manufactured exports, or are we just putting in this restriction with respect to feed grains?

Mrs. JACOBSON. Just on exports under Public Law 480 of a certain kind, and on wheat feed grains to certain Communist countries.

Mr. FRELINGHUYSEN. You attribute this purely to a desire on our part to support the merchant marine?

Mrs. JACOBSON. May I answer this in this way: On the one hand we seek one good end, a strong and profitable merchant marine; on the other hand we seek another good end, expanding exports of our agricultural products.

The thing that I tried to say in the last sentence is that we would seek to cooperate in developing some measure that could both assist the merchant marine and assist our exports at the same time.

We serve on committees that are exploring and studying this possibility and representatives of the Department of Agriculture work with these committees and hope that something can be found. This is why I say I am not taking a position on advocacy here.

I am in a Department that is looking out for agricultural exports, and that is a good thing. But others look out for the maritime industry and we recognize that its health is also a good thing.

Mr. FINDLEY. Mr. Chairman, if I may comment on that.

I may be totally misinformed, but I believe this rationale of 50-50 requirement is that American shipping should not be excluded purely on a price basis from the shipment of commodities in which the taxpayers of the United States already have a substantial investment.

With feed grains, for example, the market value of the feed grains crop is roughly four and a half billion dollars a year, and our Federal feed grains program is costing about a billion and a half dollars, or a big portion of the value of the crop. So the taxpayers have a substantial investment there. They reason that if they have that big an investment, then American shipping should not be excluded from transporting that subsidized commodity beyond our borders, which is one reason I think we ought to get away from the subsidy of commodities.

Mr. FRELINGHUYSEN. Mr. Findley is an ex member of the Committee on Agriculture, so obviously he speaks with authority on this point.

The other question I wanted to ask is with respect to Cuba. On top of page 7, you point out that the amendment to Public Law 480 allows the President to make a determination that sales agreements can be entered into if it is in the national interest, and that trade with Cuba could be permitted with certain limitations, which you spelled out.

Has there ever been such a determination made?

Mrs. JACOBSON. I know of only one, in the case of Morocco. We have a sales agreement under Public Law 480 with Morocco for reasons that we believe are very much in the national interest, to strengthen that country, to loosen its ties with the more aggressive countries and certainly with the Communist countries.

Morocco had been sending some component of fertilizer (I think it was phosphate, but I am not sure) that the Cubans used for fertilizer for their crops.

It clearly fitted under nonstrategic raw material for agriculture. This had been a traditional shipment for a long time, not a great amount. So in the case of Morocco the President ruled that this traditional shipment to Cuba should not deprive Morocco of the right to have a Public Law 480 agreement under this law.

Mr. FRELINGHUYSEN. I seem to remember some other witness testifying that an American-controlled firm abroad may export to Cuba goods if they are not of U.S. origin.

Mrs. JACOBSON. This is entirely outside of my field of knowledge.

Mr. FRELINGHUYSEN. I am troubled. Why should there be an opening with respect to trade with Cuba? The same argument you give could apply with Morocco's desire to trade with North Vietnam, as an example.

Mrs. JACOBSON. Maybe Mr. Findley knows because he was on the committee that handled that.

Mr. FINDLEY. Yes; I remember that very vividly. The reservation in respect to raw material trade with Cuba was designed purely to protect India. India had a rather low but, to it, apparently, important trade with Cuba, I think, in hemp or something like that worth \$700,000 a year. But India was on the receiving end of tremendous Public Law 480 shipments.

We were trying to tighten down on trade with Cuba and our committee sought to shut off Public Law 480 trade with any country that traded with Cuba. Then it came to light that poor India was so anxious to protect its cash markets in Cuba that we ought to make an exception for India and it was done by means of this language.

Mr. FRELINGHUYSEN. We are lucky to have an ex-member of the Committee on Agriculture with us.

I want to thank you very much on behalf of the committee, Mrs. Jacobson, for your very interesting testimony.

Mr. FINDLEY. May I ask one final question, Mr. Chairman?

I keep thinking of the soybean oil to Poland. Now, surely, Catholic relief would like to have other things to give away in Poland. Why did it happen to be soybean oil? Do you know the procedure that our Department goes through in deciding what items will be shipped under the donation program and what will not? Do they have to be determined to be officially in surplus to be eligible for donation?

Mrs. JACOBSON. No.

Mr. FINDLEY. So it could be anything; could it not?

Mrs. JACOBSON. Actually, AID handles the donation programs except insofar as the commodities are concerned, which must be handled by Agriculture and the CCC. In this case the AID handled the request. I think I could find out whether they requested anything else, whether this was a part of an old request—you don't happen to know these details; do you?

Mr. DEFELICE. No.

Mrs. JACOBSON. If I can find out anything about it I will be happy to supply it. But I can answer the point, the actual determination of the commodities is made by AID. We always periodically ask AID, "Now what do you expect to be the commodities that we should be watching out for?" We are a kind of supply agency for them as far as the donation programs are concerned.

**Mr. FINDLEY.** I can see why the Soybean Council, for example, would be very much interested in this. I am wondering just how our Government reaches a decision on what commodities will be available and what will not be. If you can supply some explanation for the record I will appreciate it.

**Mrs. JACOBSON.** I will do that.

(The following information was subsequently supplied:)

The Government of Poland negotiated a phase out agreement with the voluntary agencies which calls for a yearly phase down in the number of recipients and the phase out of all donation activities by June 30, 1970. In keeping with the phase out arrangement, the voluntary agencies reduced the total number of recipients for FY 1968 by 16 percent to 2,494,000 persons. The level of food commodities approved for FY 1968 totals 63.4 million pounds and includes wheat flour, rolled wheat, cornmeal, nonfat dry milk, blended food products, vegetable oil, butter, and butter oil, with a CCC value of \$10.6 million for distribution to 2.5 million needy persons, primarily children.

The commodities approved for shipment in FY 1968 included many others in addition to vegetable oil, as follows: wheat flour, 26,919,000 pounds; vegetable oil, 11,792,000 pounds; blended food products, 9,802,000 pounds; butter oil, 5,256,000 pounds; nonfat dry milk, 4,071,000 pounds; cornmeal, 3,233,000 pounds; butter 1,439,000 pounds; and rolled wheat 900,000 pounds.

**Mr. FRELINGHUYSEN.** Thank you very much.

(Whereupon, at 3:20 p.m., the subcommittee was recessed, subject to call.)

## EAST-WEST TRADE

### 6. Department of Commerce

THURSDAY, MARCH 7, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 2 p.m., in room 2200, Rayburn House Office Building, Hon. Edna F. Kelly (chairman of the subcommittee) presiding.

Mrs. KELLY. The subcommittee will please come to order.

For the past 4 weeks, this subcommittee has been inquiring into the issues relating to East-West trade.

By questioning witnesses from various executive departments and agencies, we have tried to ascertain how our laws and regulations operate in this field and to what extent they may advance or hamper the achievement of our foreign policy objectives.

Today we are pleased to welcome Assistant Secretary Lawrence C. McQuade of the Department of Commerce, who is accompanied by Mr. Lawrence Fox, Director of the Bureau of International Commerce, and Mr. Rauer Meyer, Director of the Office of Export Control.

Gentlemen, the Department of Commerce plays a central role in the East-West trade picture. On the one hand, you are the people who encourage foreign trade in certain commodities; on the other hand, you apply restrictions and prohibitions mandated by the Congress.

Secretary McQuade, I have glanced at your statement. We will be happy to have you read it, or to accept it for the record and have you summarize it, whichever you prefer.

Would you proceed?

#### STATEMENT OF HON. LAWRENCE C. McQUADE, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, DEPARTMENT OF COMMERCE

Mr. McQUADE. Fine. I thought for a minute I could talk about this and then we could put it in the record.

The three points which I try to make in here are, first, that our involvement falls into three areas: The general area of U.S. trade policy and trade promotion, as you have indicated; the second is management of the Export Control Act; and the third is our relationship with other agencies which have strategic trade and transactions control.

Now, focusing on the first one, I think the important thing to look at

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is the administration's policy and objectives, which is to engage in peaceful trade with all the countries of the world as long as this is consistent with our national policy objectives.

In this respect, East-West trade is no exception. The real question is in balancing out the wide variety of the Nation's objectives, whether in the judgment of whoever is making the judgment, the greater trade with Eastern Europe tends to support or tends to harm our national welfare and security.

If I put heavy weight on the important ingredient of the peaceful character of the commodities which are allowed to enter into this trade, I think you know that the net judgment we have made in the administration is that it tends to support our objectives.

In a sense, there are really two main ingredients to the foreign policy. One is to be tough where we have to be tough to deal with those aspects of the Communist countries' policies which call for toughness, the war in Vietnam, the *Pueblo* incident, and things of that sort.

At the same time, looking toward Eastern Europe as distinguished from the Far Eastern countries and Cuba, it is our feeling that it is wrong to follow a one-dimensional policy and there is great merit in cultivating areas of common ground on simply a foreign policy ground, and you add to the foreign policy consideration the commercial rationale which makes it sort of inappropriate to deter American firms from accepting commercial opportunities which are readily being fulfilled by firms in other countries.

I would not for a minute put the commercial rationale very high in the face of the national security issue or foreign policy issue, but I think in this case the two of them move in the same direction. There are some balance-of-payments benefits, but I don't think they rate very high.

I have included in my statement the data which underpins our East-West trade. You see two things from this summary. First, the size of the trade is very modest. Secondly, a very large portion of what we export consists of agricultural products and a very small proportion consists of industrial-type products. I think this gives you a little perspective when you look at those numbers.

The next main point I would like to focus on is the question of whether we can achieve the goal of limiting our trade to nonstrategic goods. This is the heart of the task which those of us who run the Export Control Act are trying to do.

In this respect, I think it is useful to go to the act, which prescribes that the policy of the Congress is to use export controls to the extent necessary (a) to protect the domestic economy from the excessive drain of scarce materials; (b) to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and (c) to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.

The test on the last point, which is the one most relevant here, is whether a commodity or technology makes a significant contribution to the military or economic potential of one of the defined Communist nations which would prove detrimental to the national security and welfare of the United States.

Now, in order to accomplish that, we have set up a system of licenses. Many goods are under what we call a general license, which means

they can go freely without any license application being filed by the exporter. Another category is validated licenses, which requires that someone submit an application and that application is considered by Mr. Rauer Meyer and his group to see whether it is eligible to be permitted to go.

Now, the test we try to use is the one I just read from the act. In making that determination, we have, first, our own staff which looks at these issues, and second, a system of interdepartmental consultations which is designed to bring to bear on these issues the collective wisdom of the State Department, the Defense Department, Interior, Agriculture, and Treasury, and we also get the advice from the Atomic Energy Commission, NASA, the Federal Aviation Agency, the CIA, the Office of Emergency Planning, indeed, anybody who might bring some useful light to bear on the issues.

We also, where necessary, try to get the benefit of advice from private sources where this would be helpful.

We have set up a committee structure. First, there is informal consultation. Second, we have an operating committee where senior staff level officials will review the difficult cases. Above that there is an Advisory Committee on Export Policy at the Assistant Secretary level.

If the Advisory Committee on Export Policy fails to come to agreement, there is an Export Control Review Board which consists of the Secretaries of State, Defense and Commerce, and the Secretary of Commerce is the chairman.

The point I am trying to make here, Madam Chairman, is that we have evolved a system which will bring to bear on the critical cases as much wisdom as we can get out of the collective Government entity.

Now, the other thing which I think is worthwhile mentioning in this résumé is the test which we use in trying to consider whether to grant a license, whether it meets the statutory standard or not. These are on page 9 and 10 of my statement. I think it is worthwhile to read them.

First, is the commodity designed for, intended for, or could it be applied to, a significant military use?

Mrs. KELLY. That is the last paragraph, is it not?

Mr. McQUADE. Yes, ma'am.

Second, does it contain unique or advanced technology that is extractable?

Third, would it promote the military and industrial base of the country of destination?

Fourth, would it contribute to the economy of the Communist countries to the detriment of our own security?

Fifth, are there adequate supplies or good substitutes available elsewhere that would make any control by us futile?

Sixth, are the quantities and types of equipment normal for the proposed use?

Seventh, is the equipment an integral part of a larger package and, therefore, unlikely to be used for other than the stated purpose?

Now, our East-West trade policy and our administration of the Export Control Act present an administrative area in which men of good will and good intentions admittedly can, and sometimes do, see things differently.

We interpret the act to call for a denial of export licenses when such denial is found to be in furtherance of the national security and foreign policy objectives, and for approval when those national interests would benefit thereby.

I will stop talking about the Export Control Act and I will mention just the last point here, which is, just as we get the benefit of advice from the Departments of State and Defense and elsewhere, so do we participate with them and with the Treasury Department in their consideration of what to do under the Battle Act as there is a close coordination, as you know, with COCOM and the COCOM procedures which we follow.

We have an active participation in these other export control matters in order to try to give the Government as effective and coherent an approach to these as possible.

I think that is really all that I might usefully say by way of summarizing that. I think it would be better if we went to things that are of interest to you.

(Mr. McQuade's full statement follows:)

STATEMENT OF HON. LAWRENCE C. MCQUADE, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, DEPARTMENT OF COMMERCE

Madam Chairman and members of the subcommittee, I welcome this opportunity to discuss East-West Trade and report to your Committee on the Department of Commerce activities in this area.

These fall largely into three areas: (1) our general involvement in U.S. trade policy and trade promotion; (2) management of the Export Control Act; and (3) cooperation with other agencies involved in strategic trade or transaction controls.

GENERAL

One of the main tenets of the foreign policy of the United States is encouraging the normal and traditional practice of peaceful trade with other countries. The U.S. government has a variety of specific programs to facilitate the channels of commerce and industry. The Congress authorized the Department of Commerce to promote trade in order to encourage domestic economic growth and to control trade to the extent necessary to safeguard our national security. Added resources for trade promotion by the Department were proposed by President Johnson in his Action Program on the Balance of Payments, on January 1, 1968. He noted that "What we now need is a long-range systematic program to stimulate the flow of the products of our factories and farms into overseas markets."

In order to pursue this aim the President, as part of a seven-step balance of payments program, announced that he would ask Congress to support an intensified 5-year, \$200 million Commerce Department program to promote the sale of American goods overseas.

The policy of our Government is to engage in peaceful trade with all countries of the world so long as this is consistent with the broad national policy objectives of the United States. East-West Trade is no exception, though it works out in a way relating to the special circumstances of our East-West relations.

I want to make it clear at the outset that I will be talking about trade only with Eastern Europe, including the Soviet Union, and trade only in peaceful goods.

We would all agree that our first concern should be the public good, taking into account, and balancing out, the wide variety of this nation's objectives. On the issue of whether greater trade with Eastern European countries tends to support—or to impair—our national welfare and security, commercial and economic benefits are only a part of the considerations going into a broader, overall judgment.

Since the end of World War II, the United States has largely followed the premise that peaceful trade, over a period of time, can help influence Eastern European societies to develop along paths that are favorable to world peace.

Even in the face of the war in Vietnam and episodes such as the Pueblo incident, where the United States must act with toughness towards aggressive acts by Communist countries, our policy towards Eastern Europe need not be one-dimensional. There is merit in a parallel policy of cultivating areas of common ground with Eastern Europe rather than those which lead toward abrasions or conflict. In addition to such foreign policy considerations, there is a commercial interest. There seems to be little value in requiring American business firms to

stand aside and let commercial opportunities go by default to competitors in other free world countries.

The underpinning of the healthy growth of our international trade with the free world lies in several factors: private enterprise takes the initiative to buy and sell in world markets; businessmen have access to foreign market information and to potential customers; they know market requirements and practices; their products are salable in foreign markets; credit and credit guarantees are available; payments can be made in convertible currencies; national governments encourage free private enterprise and initiative. These factors make for greater trade.

The current East-West trade situation does not include enough of these vital ingredients to activate rapid expansion. There are deterrents on both sides.

On the U.S. side there is a lack of interest by most U.S. firms, and a lack of knowledge of import needs and export products as well as how to do business with Communist trading organizations. Credit is more difficult to obtain than for trade with Western Europe, and for most Communist countries there exist tariff and other impediments to trade with the United States that do not apply to Western European trade.

On the Eastern European side there is a shortage of gold and hard currency, there are few products of interest to U.S. buyers and the Eastern Europeans do not know the design and marketing techniques characteristic of effective selling in the United States. Communist trading organizations, which control all trade in these countries, are hampered by a cumbersome bureaucratic structure and a preference for trade managed on a bilateral basis. These factors interfere with buying and selling on strictly rational economic grounds.

Notwithstanding these difficulties and impediments, we do carry on trade with the countries of Eastern Europe. In 1967 total trade remained at approximately the same level as in 1966. Our 1967 exports to this area amounted to \$195 million, compared with \$198 million for 1966. Imports in 1967 (including those from Outer Mongolia) were \$180 million, compared with \$182 million for all of 1966. Agricultural products, especially corn, sorghums, cotton, and hides and skins, make up the bulk of our exports to Eastern Europe, averaging 70% of the total, by dollar volume, over the last three years, for which we have complete data (1964-1966). In the same period oils, fats and waxes made up another 11% of exports and chemical products about 5%. These three categories of exports thus comprise 85% of our exports to Eastern Europe.

Our export data cover commodities only. Not reflected are United States exports of technical data. Yet such trade constitutes a significant share of exports to Eastern Europe by U.S. industrial and engineering firms. Because dollar values are generally not attached to technical data applications and exports, technical data licensing is reported only on the basis of the number of applications.

While the excess of U.S. exports over imports from Eastern Europe has been narrowing in recent years, we have an over-all favorable balance in our East-West trade accounts. For the period 1960 to the present, this balance has been in our favor by more than half a billion dollars. Even modest favorable trade balances with Eastern Europe are welcome at a time when we are making strenuous efforts to maximize our favorable world-wide trade balance to offset the United States balance of payments deficit. Obviously, a large favorable annual trade balance with the countries of Eastern Europe cannot be achieved under current conditions at least as long as they seek to balance their international trade bilaterally rather than multilaterally. These countries are not likely to use more of their available hard currency to buy in the United States unless they are given an opportunity to earn dollars by selling in the United States. As it is, they dole out their limited supply of hard currency to buy those things they feel they need the most.

#### *Export Control Act*

The overall U.S. trade expansion program is seeking to generate a greater interest by American businessmen in all foreign markets, including those of Eastern Europe. In pursuing this program of encouraging exports of peaceful commodities and technology to Eastern Europe, including the USSR, we are mindful of the special responsibilities of the Department of Commerce as the administrator of the Export Control Act.

The national security directive of the Export Control Act provides for denial of any authorization to export commodities or technical data from the United States "to any nation or combination of nations threatening the national security

of the United States if the President shall determine that such export makes a significant contribution on the military or economic potential of such nation or nations which would prove detrimental to the national security and welfare of the United States."

In fulfilling this policy directive, the Department exercises export controls toward Communist destinations with selectivity and flexibility as to the destinations and the kinds of commodities or technical data to be exported. The strictest export control, a general embargo, is maintained toward Communist China, North Korea, North Vietnam, and Cuba. Proposed exports to the USSR and the Eastern European Communist countries—other than specified non-strategic commodities which may be shipped to these destinations under general license—are reviewed carefully on a case-by-case basis, and they are approved or denied under the policy guideline of the Act to which I referred earlier. Exports to Poland and Rumania, on the basis of negotiations between our Governments, are less restricted than are exports to other Eastern European countries, and their general license commodity list is larger. Exports to Yugoslavia have been treated the same as to friendly countries since 1948 when Yugoslavia adopted a course independent of the Soviet Union.

In October 1966 your Subcommittee was told that the Department of Commerce had removed the validated license requirement for a number of commodities to most East European destinations. Since that time, as a result of our continuing review, additional items have been added to the General License list. These include agricultural products and equipment, passenger cars and parts, and some rubber products. During the same period, after further review, we imposed stricter licensing requirements on other commodities. These include for example ablative materials, which permit re-entry of space vehicles at high temperature; structural sandwich construction materials for high heat resistant material with military aircraft and missile applications, and isostatic presses for use in military nuclear activities. Most of the items already required validated licenses to Eastern Europe. The underlying purpose of the stricter controls is to require prior licensing of the commodity to all destinations in order to guard against unauthorized diversion, and in certain instances, impose special controls over U.S. exports of the technical data and the product manufactured abroad with these data.

Licensing export transactions to Eastern European Communist countries present policy and technical problems of varying complexity that necessitate intensive examination to determine the appropriate action in accordance with the Export Control Act. Some transactions require preclearing checks with American Embassies abroad; all require technical-strategic analysis. The assembled information may indicate the need for interdepartmental review, and unresolved questions and agency differences may have to be referred to higher governmental levels. These activities are time-consuming but in most cases are necessary to determine whether the export of a commodity or technical data should be permitted. We try, of course, to process export license applications as quickly as possible, but we cannot neglect and will not neglect national security considerations in the interest of speedy action.

In the administration of the Export Control Act, complex issues arise that require difficult decisions. As an example, one difficult category is the piece of equipment or technology which the Soviet Union or other Eastern European country is capable of developing independently. Does a denial of the product force such development to our overall detriment or is it useful to deny the product and thereby strain engineering or scientific resources and stretch out availability time?

Section 4(a) of the Export Control Act requires that the Commerce Department "... seek information and advice from the several executive departments and independent agencies concerned . . .", and Commerce does in fact consult with the Departments of State, Defense, Interior, Agriculture, and Treasury as well as the AEC, NASA, FAA, CIA, OEP, and indeed with any appropriate department or agency. Licensing personnel in the Bureau of International Commerce operate under policies and procedures which have been approved after interagency consideration. Any policy changes and the most important license applications—which amount to a small percentage of the total case flow—start initially in an interdepartmental committee of senior staff-level officials of these departments and agencies, called the Operating Committee. Most frequently their recommendation is unanimous and with few exceptions the final decision is in accordance with such recommendation.

If there is disagreement, a higher committee consisting of assistant secretaries of the interested agencies, called the Advisory Committee on Export Policy, endeavors to resolve the conflict. As sometimes happens in these highly sensitive and controversial matters, agreement may not be reached at that level. The Export Control Review Board consisting of the Secretaries of State, Defense, and Commerce, as Chairman, then considers the case. Heads of other departments and agencies are invited to participate in cases of concern to them. However, in all situations the function of the other departments and agencies is to provide information and advice. The responsibility for decision rests with the Commerce Secretary, subject, of course, to the President's power of review.

Not all cases involving Communist destinations are reviewed in the committee structure, but rather the most important ones, generally posing new policy problems. However, interagency consultation on export licensing matters is not limited to cases formally placed before the committee structure. Even though in a particular case policy guidelines have already been given by the ACEP structure, the Office of Export Control still consults frequently on an informal basis with other departments and agencies as appropriate. Such consultations provide technical and intelligence information, strategic evaluations, and advice.

The decision as to what kind of export is strategic may be made on a commodity basis or a transaction basis. The Export Control Act calls for denial of any request to export commodities or data from the United States which would make a significant contribution detrimental to the national security and welfare of the United States. Non-strategic commodities such as tobacco products have been removed from validated license control to all Communist countries except Far Eastern Communist countries and Cuba.

For commodities not so clearly non-strategic, we look at each application to determine whether in that transaction and for that particular end use the commodity may be considered to be strategic. Entering into this decision are such considerations as (1) Is the commodity designed for, intended for, or could it be applied to a significant military use? (2) Does it contain unique or advanced technology that is extractable? (3) Would it promote the military-industrial base of the country of destination? (4) Would it contribute to the economy of the Communist countries to the detriment of our own security? (5) Are there adequate supplies or good substitutes available elsewhere that would make any control by us futile? (6) Are the quantities and types of equipment normal for the proposed use? (7) Is the equipment an integral part of a larger package and therefore unlikely to be used for other than the stated purpose?

Our East-West trade policy and our administration of the Export Control Act present an administrative area in which men of good will admittedly can and sometimes do see things differently. We interpret the Act to call for *denial* of export licenses when such denial is found to be in furtherance of national security and foreign policy objectives, and for *approval* when those national interests would benefit thereby.

#### *The Battle Act*

In addition to its general trade promotion and to its Export Control Act functions, the Commerce Department is involved in the East-West trade issue through the Battle Act. The Department cooperates closely with, and provides support, to the State Department in carrying out the Mutual Defense Assistance Control Act of 1951, generally referred to as the Battle Act. Pursuant to this Act the United States and 14 other Free World nations cooperate in controlling strategic trade to Communist destinations through the international organization in Paris known as COCOM. Assistant Secretary of State Solomon dealt extensively with this Act in his testimony before you earlier.

We also coordinate our controls closely with those of the Treasury Department, as described by General Counsel Smith of Treasury.

#### CONCLUSION

I hope I have been effective in giving this Committee an appreciation of the attitude with which the Administration approaches (a) the East-West trade issue and (b) its responsibilities to the Congress and the country under the Export Control Act.

Thank you, Madam Chairman.

Mrs. KELLY. Thank you so much, Secretary McQuade.

You indicate that our Government's general policy aims at increasing peaceful trade with Eastern Europe. But then, on page 3, you make two statements which appear somewhat contradictory.

In paragraph 1, you say that:

There seems to be little value in requiring American business firms to stand aside and let commercial opportunities go by default to competitors in other free world countries.

But in paragraph 3, you indicate that factors which are normally required to bring about an expansion of trade are largely missing in the field of East-West trade.

Now, my questions are these:

First, are American firms required to stand aside and let others get the business? If so, in what respect? And how would you propose to remedy that situation?

Mr. McQUADE. Let us begin with the generalization that most countries of the world have no trade controls with this area and they can freely trade. There is a group of countries which participate in the COCOM arrangement and they do have a set of controls which are coordinated through that arrangement.

With respect to all those goods in those COCOM countries, we think we are on a par; COCOM includes most of the industrialized countries, so in terms of industrialized goods, I think the fact that most countries do not have trade controls is not important, but the United States has a somewhat longer list than the COCOM list and, therefore, there are occasions when there will be an uncontrolled item available from another industrial country for which the U.S. businessmen must get a license; whereas, from, say, France or Britain it would not be necessary to get a license.

I have come at this in a long-winded way in order to set up the arrangement of three categories of exports. Now, when we know, in considering an application, that it would be available to the Eastern European countries to get the same goods from another source without any control, we weigh this very heavily in our own judgment as to whether allowing this commodity to go to Eastern Europe from the United States would give strategic assistance to Eastern Europe.

In most cases we are likely to say that if they can get it elsewhere, then there is no valid reason for us not to grant a license.

There may be some cases—I think the most spectacular ones probably show up in the munitions control, which is under the Department of State's jurisdiction—where even though someone might buy munitions from some other country, we certainly would not want to let them go from here. But in the majority of the cases where the product seems peaceful by other standards and meets this test, we let it go.

Maybe I have not answered your question satisfactorily, but our dilemma on these things is trying to reconcile the security objective with the desire to let a free flow of goods go where that is not at stake.

Mrs. KELLY. In your statement, you drew a clear distinction between peaceful commodities and military commodities.

Mr. McQUADE. I was trying to mention the military only to dramatize for you that in applying the rule, alternative sources would generally be a trigger for us to permit goods to go, but could not be the

definitive answer for some commodities. That seemed like the most spectacular example I could give.

Mrs. KELLY. In other words, when there are alternate sources of supply and the export in question does not involve munitions, you just grant the license.

Mr. McQUADE. Not automatically, but it is highly probable.

Mrs. KELLY. Ninety percent probable?

Mr. McQUADE. Yes.

Mrs. KELLY. Now, my second question is: Considering the deterrents to East-West trade which you mentioned on pages 3 and 4 of your statement, is there really any room for a significant expansion of such trade? Further, how would you propose to overcome those deterrents? Or does the same answer apply to both questions?

Mr. McQUADE. No, I think there are really two sets of impediments to expanded East-West trade. One set lies within the control of the countries in the Eastern European bloc. Some of them are just the way they have structured their economy. Some of them are just their lack of convertible currencies and so forth. They are spelled out here.

The other set of impediments is the ones which you find here in the United States. Probably the most important of those is that the Eastern European countries are inclined to trade on a bilateral basis. They like to earn within the country to which they export the currency with which they buy the products of that country, and their ability to do this in the United States is hampered because we do not apply the most-favored-nation treatment with respect to our tariffs on goods coming from those countries except for Poland and Yugoslavia.

As a result, they have to leap an extra hurdle in order to ship their goods to the United States and sell them to the United States.

So I would think if you pursued the policy of bridgebuilding to its logical conclusion, you would want to give the most-favored-nation treatment to the Eastern European countries.

Now the bill, with which I am sure you are familiar, which has been introduced in years past, would give the administration permission to do this, provided they got a satisfactory quid pro quo from the country to which such a grant would be made.

I think it would be a major step forward if we could remove that particular impediment, that is within the power of the United States, subject to negotiation, to achieve.

Mrs. KELLY. On page 4 of your statement you indicate that agricultural products, fats and oils, and chemicals account for 85 percent of our exports to Eastern Europe. Would you say that this 85 percent consists of peaceful goods?

Mr. McQUADE. Yes.

Mrs. KELLY. What goes into the remaining 15 percent of our exports to Western Europe? What portion of these exports would you consider peaceful and what portion is suitable for dual use—either for peaceful use or to support a military effort?

Mr. McQUADE. By definition, I would say 100 percent of the goods that go are nonstrategic—peaceful is a sort of odd term—because by definition we have reviewed them and exercised our best judgment to screen out anything which we thought was strategic.

Mrs. KELLY. Thank you, Mr. McQuade. Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. Thank you, Madam Chairman.

Mr. McQuade, it is a pleasure to welcome you to the subcommittee.

I would like to follow up on Mrs. Kelly's questions with respect to the guidelines that have been set up for you. It seems to me there is some confusion. You, yourself, have talked about the difficulty of defining peaceful goods. I would think this definition in the Export Control Act, and I don't have the language in front of me, about any substantial volume of trade which would make a significant contribution to the military or economic potential of a country—I should think that definition would be so broad that it would not be very helpful.

Don't so-called peaceful goods make a contribution to the economic potential of a country?

Mr. McQUADE. That is one of the most difficult questions we have, trying to define that. I would think in light of the volume of trade, which is really a couple hundred million dollars each way, that it is such a small percentage of the overall total of the Soviet economy, the Eastern European economies, that it really would not make a significant difference, if you look at it in gross, to their economic potential to hurt us in security terms.

The really difficult questions which arise on that level are particular commodities which are on the frontier or close to the frontier of technology where the quality of goods they produce, it might be a machine tool or something like that, are so much inferior to ours that getting that piece of equipment from us might speed up by a year or two some of their achievements. It could be in the category of space, or some other way, to help their economy move forward.

Mr. FRELINGHUYSEN. I notice you did point out there has been some restricting of licensing requirements, in the area of ablative materials. I don't know what "ablative" is. I thought it had something to do with grammar.

Mr. McQUADE. Don't push me too hard on my technological knowledge, but the principle is clear.

Mr. FRELINGHUYSEN. This restriction apparently is to slow down the material which can be used for developing technology of a military character, I gather from reading your list of items on the top of page 7.

Mr. McQUADE. This is a phenomenon which happens. As we move ahead in the area of science and technology, new things are created which don't happen to be on our historical list. The job we have is, first, to put them on our own control list so that we can control them as they leave the United States; and second, as this technology wends its way into the hands of the other industrialized nations of the West, we try to persuade the COCOM organization in Paris to add them to that list.

Mr. FRELINGHUYSEN. Do you have a more complete list of the items you have added, of the kind you just described? Is this an inclusive list you have just mentioned here? Also, what items have you recently taken off? You infer there have been additional items added to the general license list. In other words, there is no individual license requirement for some items.

Mr. McQUADE. Yes; we will be able to supply you a list of the things we have added, which is published, by the way. But the point you are suggesting is an important one. We have to review this list at all times because of the way the world goes—

Mr. FRELINGHUYSEN. If you will give us an indication as to what changes you are making in both tightening and lessening your restrictions, it would be helpful. Is this a comprehensive list?

Mr. McQUADE. No; we will give you one.

(The information requested follows:)

COMMODITIES PLACED UNDER GENERAL LICENSE TO EASTERN EUROPE AND THE  
USSR SINCE OCTOBER 1966

<i>Description</i>	<i>Number of commodity control list entries</i>
Agricultural seeds, except inbreds	6
Hides and skins	11
Peanuts and rosins	3
Passenger cars and parts	12
Miscellaneous drugs	4
Man-made fibers and yarns	3
Soybeans and oilseed cake	2
Hand tools	3
Rubber products	7
Agricultural products (e.g., cheese, cereal, malt, macaroni, flour, tobacco, cedar lumber, cotton, fertilizer, and vegetable oils)	29
Industrial items (e.g., textile cutting machines, mineral mixing equipment, jacks, wood preparation equipment, and general purpose electronic items	10
Total	90

COMMODITIES FOR WHICH STRICTER LICENSING REQUIREMENTS HAVE BEEN  
IMPOSED SINCE OCTOBER 1966

A. THE VALIDATED EXPORT LICENSE REQUIREMENT WAS EXTENDED TO INCLUDE FREE WORLD COUNTRIES FOR THE FOLLOWING COMMODITIES, AND A FEW OF THEM NOT UNDER CONTROL TO EASTERN EUROPE WERE PLACED UNDER SUCH CONTROL. THE UNDERLYING PURPOSE OF THIS STRICTER CONTROL IS TO REQUIRE PRIOR LICENSING OF THE COMMODITY TO ALL DESTINATIONS IN ORDER TO GUARD UNAUTHORIZED DIVERSION, AND IN CERTAIN INSTANCES, IMPOSE SPECIAL CONTROLS OVER U.S. EXPORTS OF THE TECHNICAL DATA AND THE PRODUCT MANUFACTURED ABROAD WITH THESE DATA

<i>Description</i>	<i>Number of commodity control list entries</i>
Ablative materials	9
Structural sandwich construction	2
Polyimide-polyamide resins and products	7
Hot and cold isostatic presses	2
Organic boranes	2
Electronic control equipment	4
Nickel and nickel alloy items	6
Products containing boron	9
Products containing lasers and masers	3
Polymers and products thereof	7
Absorbers of electromagnetic waves	4
Instruments and apparatus for integrated circuits	3
Miscellaneous metals and manufactures	3
Miscellaneous electronic equipment	9
Arc plasma devices	2
Miscellaneous scientific equipment	2
Miscellaneous equipment and material	3
Total	77

B. THE VALIDATED EXPORT LICENSE REQUIREMENT FOR THE FOLLOWING COMMODITIES  
WAS EXTENDED TO EASTERN EUROPEAN DESTINATIONS ONLY

Cable base stock.....	2
Polymers and products thereof.....	2
Miscellaneous metals and manufactures.....	1
Totals .....	5

Mr. FRELINGHUYSEN. In addition, I am not quite sure who makes the decision. The primary responsibility is on the Department of Commerce, but with the advice of other interested agencies?

Mr. McQUADE. That is correct.

Mr. FRELINGHUYSEN. The basic decision is not made by the interdepartmental committee?

Mr. McQUADE. No.

Mr. FRELINGHUYSEN. You refer also to the operating committee and the so-called Advisory Committee on Export Policy and the Export Control Review Board. This is in cases where there is a failure to decide or a disagreement?

Mr. McQUADE. The chain of command would be the President, the Secretary of Commerce, me, Mr. Fox and Mr. Meyer, in that sequence. We have the power of decision. In making that decision, we take into account the advice of the other agencies.

Mr. FRELINGHUYSEN. But that is a family that never gets together, as a practical matter, if you include the President.

Mr. McQUADE. I mean if at Mr. Meyer's level he is unable to decide.

Mr. FRELINGHUYSEN. What does Mr. Meyer do?

Mr. McQUADE. He is in charge of the Office of Export Control. If it is unable to resolve the question, or if it is the kind of question that we should not make a decision on without the advice of other agencies, under the formal procedure the matter would move up into a so-called operating committee headed by Mr. Thau right here. They will review it at the senior staff level with the other agencies.

Mr. FRELINGHUYSEN. The operating committee is chaired by someone in the Department of Commerce, but has representation from other interested areas?

Mr. McQUADE. Yes, sir. Their recommendation will be handed to me and I will either adopt it or, if I am still concerned, I will call the assistant secretaries for the same agencies and we will have a meeting. If we are at odds, I have the technical authority to decide, but I would push it up to the secretarial level and anything which might go to that level, if they fail to agree, might go to the President.

This is the technical chain of command. Those are the levels that might consider a very difficult case. The chances are that I will be the last person who will decide in almost every case, but there are the rare cases where things would go up higher.

Mr. FRELINGHUYSEN. You mention the COCOM list. The impression is general that the other member countries are reluctant to add much to the COCOM list. Is it fact, the pressure generally is to take items off, with us in some cases trying to urge that the list be broadened?

Is that correct? Is the feeling that the list is too broad? In addition do we as a general policy try to coordinate and get some common approach, but fail because of the feeling that we are too restrictive in our views?

Mr. McQUADE. I think that describes the general atmosphere; that we are generally more conservative in this area than the rest of the industrialized countries. We generally like to make some addition as well as deletions. The net list might be the same length, but we want the new technology items to go on and as the lowest order of technology becomes generally known, we become less concerned with it. We would like to update the list.

Mr. FRELINGHUYSEN. I should think that the other countries would be just as concerned about the application for military purposes of new technology, and perhaps more so. Why is there this lack of sensitivity?

Mr. McQUADE. I think in order to answer that, I have to be part psychologist, but it is my judgment that their estimate of the threat which they and the rest of the Western World might face from the Soviet Union and Eastern European countries is by and large less than ours.

I would say, therefore, they are less concerned with upgrading the totality of capability of the Eastern European countries. There is some element of commercial competitiveness, I think, in some of these areas. It is a matter of judgment. We, as I say, have tended to be more conservative than others.

Mr. FRELINGHUYSEN. You talk about technical data from this country constituting a significant share of the trade. Of course, as you say, it is impossible to put a numerical value on such data, but I suppose this is one way a country acquires know-how.

Does this constitute much of a problem for you? Do you worry whether technical data represents significant leakage of information?

Mr. McQUADE. It is certainly one of the most difficult areas to be sure you are effective in your trade controls. The test is if it is published data, then it goes under a general license because we figure if it is published, they can go to the library and get a copy just like you and I could, and it is futile to try to control that.

On the unpublished data which we worry about and grant licenses for and to the extent that we are dealing with sophisticated companies, sophisticated people who understand and work with our regulations, we think it probably is pretty effective.

I would think most of the big companies which are in the international trade business and have high technology in their product line are familiar with our controls, so I think we are quite effective in that area. But there are people who are not familiar with our controls who might be unaware and might in all innocence send technology overseas without appreciating the problem they cause.

Mr. FRELINGHUYSEN. Thank you.

Mrs. KELLY. Mr. McQuade, I would like to pursue the question that Mr. Frelinghuysen addressed himself to.

Do the technical exports involve patents and copyrights, and so forth?

Mr. McQUADE. Well, if something is patented, of course, then it is published. Once it is published, then, of course, we operate under the theory that it is generally available and that becomes subject to general license which, as you understand, I know, Mrs. Kelly, means that you do not need any permission to send it.

Mrs. KELLY. Is the American exporter afforded any protection in the country to which he exports? Are there any regulations in those countries or agreements which protect the patent, copyright and other rights of our people?

Mr. McQUADE. I am not the world's greatest expert on patent law. Perhaps Mr. Fox will answer this question.

STATEMENT OF LAWRENCE FOX, DIRECTOR, BUREAU OF INTERNATIONAL COMMERCE, DEPARTMENT OF AGRICULTURE

Mr. Fox. If the patent is published, it is available in the Patent Office of the United States and in any country in which it is published. Therefore, the patent document itself is published data and is available for export under the general license.

However, the underlying data which might be in considerably greater detail might require license. It certainly would require a license if it were a direct shipment to the Eastern European bloc. In most instances, it would not require a license for shipment to the Western countries.

Mrs. KELLY. Do the Eastern European countries offer any protection to American exporters of industrial technology; that is my question.

Mr. Fox. There were two questions. First, I wanted to elaborate on Mr. McQuade's comment on the patent being available under general license, but the underlying data being subject to license.

With respect to protection of these patents, it varies country by country. My general belief is that a high degree of patent protection has been accorded by several of the Eastern European countries to property rights by nationals in Western countries.

Mr. McQUADE. Many of them have joined the International Convention. I gather from talking to some people in the Patent Office that in the Soviet Union today it is now considered a worthwhile thing to get a patent because they seem to abide by this system of protection better than they used to.

Mrs. KELLY. One further question before I yield to Mr. Derwinski.

Have you ever had any disputes over the issuance of a license which had to be referred to the President and in which he changed the lower-level decision?

Mr. McQUADE. Where he has changed his decision?

Mrs. KELLY. A decision made at lower levels of the Government. Has any case of this type ever gone that high?

Mr. McQUADE. There is in my memory one case. I am not sure just what my proprieties are about telling about it.

Mrs. KELLY. That is all right. I simply wondered if there had been a case like that.

Mr. FRELINGHUYSEN. I was just reading the Declaration of Policy in the Export Control Act which raises a question in my mind about something which I heard recently. The statement is:

"It is the policy of the United States to use export controls to the extent necessary (a) to protect the domestic economy from the excessive drain of scarce material."

Someone reported that we have exported recently to Yugoslavia substantial amounts of copper scrap. Is that true, and if it is true, why would it not fall under this kind of statement? Could you give us some details about that transaction?

Mr. McQUADE. It is true that this scrap was shipped to Yugoslavia.

It is also true that we have this authority which we exercise to use the Export Control Act to preserve scarce materials.

Mr. FRELINGHUYSEN. What surprises me is that surely copper would fall in the category of scarce supplies when we are spending over \$3 million a day to import copper.

Mr. McQUADE. The point is that the strike shut down 85 or 90 percent, maybe even more, of the fabricating capacity of the U.S. industry. There is a greater supply of scrap available than we can convert from scrap into usable copper, because the plants which would do that conversion are on strike and they can only absorb some part of the available copper scrap in the country.

So by letting this scrap go out of the country, we do not reduce the net amount of copper which can be made available for use in the ordinary economy.

Have I made it too complicated?

Mr. FRELINGHUYSEN. It is not complicated but it shocks me. What you are saying is that it is necessary for us to buy the pure copper overseas and it does not make any difference if we sell them scrap to provide us with pure copper because there is a strike going on which prevents us from melting down the scrap and providing pure copper, ourselves.

Mr. McQUADE. That is right. If we can't smelt it, it stays in the pot. I have spent the last 3 days in this mediation effort.

Mr. FRELINGHUYSEN. I still don't see why you don't invoke the emergency provisions and end it.

Mr. McQUADE. We hope to come up with a settlement soon.

Mrs. KELLY. Mr. Derwinski?

Mr. DERWINSKI. To remain on the subject of copper scrap for a moment, do I understand if we were not handicapped by the copper strike that this export of copper scrap to Yugoslavia might not have been permitted?

Mr. McQUADE. If there were a shortage of copper in the country and the scrap could usefully be used, we very probably would be using the Export Control Act to limit the amount of copper scrap and other forms of copper which could go out of the United States. We rarely get the limitation to zero.

Therefore, it is possible, if it came within the exportable quota, it could go.

Mr. DERWINSKI. I do not happen to agree with your position, but you spell out very clearly that exports to Yugoslavia are treated the same as to friendly countries.

Again on this question of copper scrap, under present copper strike complications and under the present policies that you follow in export control, would you have authorized the export of this copper scrap to, let us say, Czechoslovakia?

Mr. McQUADE. We might well have; yes.

Mr. DERWINSKI. To the Soviet Union?

Mr. McQUADE. My counsel, or adviser, tells me Yugoslavia would be the only place for a short supply item which we would authorize.

Mr. DERWINSKI. The reason I raise this point is because on page 6 of your prepared statement you break down the Communist countries into three categories: the general embargo against Red China and North Korea, North Vietnam, and Cuba; the U.S.S.R. and Eastern European countries in which I assume you include Outer Mongolia; and Yugoslavia, which you do not consider Communist.

Therefore, I want to be sure I understand. Under present circumstances or present policies, you would not have authorized the export licenses for this copper scrap to any country except Yugoslavia.

Mr. McQUADE. That is correct.

Mr. DERWINSKI. At the moment, you still classify Rumania in the category "less friendly than Yugoslavia."

Mr. McQUADE. We would classify them in the category which has the tougher treatment; yes.

Mr. DERWINSKI. On this daily report of export licenses I have sometimes been intrigued by the "no value" category given technical data. Now, no value merely means what—that there was not a purchase price involved? Why can't a purchase price be listed?

Mr. McQUADE. It is true that where the transaction takes the form of a direct sale for a fixed price, it would be possible to put a value in. But there are also transactions in which the arrangement is that: "you will pay us some percentage of your total sales of the product which are made," and there are a lot of variants of that.

In other words, the price paid would include things which cannot be foreseen at the time application is made or might include some other concession which is unrelated, such as: "You will make us your distributor in such-and-such a market for your product."

It is the difficulty in many of the cases of getting a fixed number which has led us to make one general rule which is that we do not ask for the giving of a value in applications for transaction controls. I think the companies would be unhappy to have that value published. If they were forced to identify a value or give a value, they feel it hurts them competitively not only in the market we are talking about, but in other markets.

Mr. DERWINSKI. In other words, in this daily report which we receive, the total dollar value does not bear any exact relationship to the purchase price or sales price involved.

Mr. McQUADE. In the case of commodities where we require that they give us the value, then it obviously is that price. In the case of technology, we do not ask them to give us a value.

I tried to indicate the reasons why we felt it would operate inequitably or give us numbers which might be of some doubtful value.

Now it is possible that we could, maybe it would be wise, ask them to put a dollar value on, but at the moment we have not come to that conclusion.

Mr. DERWINSKI. Are all export licenses listed eventually in either the daily or the quarterly report?

Mr. McQUADE. All validated licenses; yes.

Mr. DERWINSKI. All?

Mr. McQUADE. 100 percent; yes.

Mr. DERWINSKI. Picking up the point that Mrs. Kelly and Mr. Frelinghuysen have both raised as to the final determination, do I understand actually that it is the Commerce Department that makes the decision; the other agencies and departments you deal with are purely consultants?

Mr. McQUADE. That is correct.

Mr. DERWINSKI. To what degree does their consultation take the form of pressure or a more urgent plea for you to withhold a license?

Mr. McQUADE. It can be utterly decisive. In practice, we really ex-

pect to get a total consensus before we act at any given level. The advice which we get from the Pentagon to the effect that delivery of this would add to the military capability of the air defense system of Eastern Europe, or something, would be decisive. Nobody else would want to ship the commodity after that.

On the other hand, there may be a difficult question where the strategic question and foreign policy considerations might go in different directions, and those are the tough cases.

Mr. DERWINSKI. Mr. Secretary, now, you emphasized in your opening remarks, and I quote, "The United States is encouraging the normal and traditional practice of peaceful trade."

Later on, you point out that there is a complication facing U.S. firms in dealing with Communist trade organizations. You also mention the fact that Communists attempt to work out agreements within their ability to acquire currency here.

That does not strike me as being normal and traditional trade, especially when they obviously have so few commodities that have a natural entry to our markets.

Mr. McQUADE. I think you have an important point. In my use of the term, I meant that unless there is a strong national policy reason for us interfering to impede trade, we would like to let the American businessman trade as free from governmental intervention as he can on a worldwide basis.

The fact that we have promotion programs which are designed to urge him to do that is what I meant at the beginning when I said we intend to encourage them. It is one answer to the balance of payments.

Mr. DERWINSKI. There is a figure here that intrigues me. You did make, I consider, an honest reference, accurate reference, to the policies of the Communist countries to balance their exports and imports for purposes of hard currency.

Mr. McQUADE. Yes.

Mr. DERWINSKI. The statistics you provide us point out that our exports and imports are about on balance with them. We have a net balance of about \$15 million to \$18 million in our favor in the last 2 years. This strikes me, then, as being something less than accidental, that they have deliberately limited purchases from us to match the exports they have been making to us.

The next question that raises in my mind is to what extent would you be interested in pressuring U.S. importers to purchase some commodities behind the Iron Curtain so that they could earn dollars to purchase items which you wish to make available to them by your licensing?

Mr. McQUADE. These days we don't put much pressure on U.S. people to import things.

Mr. DERWINSKI. Before these days. Let us say before last fall.

Mr. McQUADE. The answer is that we do not use any such pressure. I don't see that we ever would be involved in that sort of activity.

Mr. DERWINSKI. One last item, Madam Chairman.

The question again as to the listing of export licenses. To what degree other than for dollar value and technical data is there reason to keep details confidential?

Mr. McQUADE. The heart of the question, I think, is that when the American businessman engages in his normal trade in commerce, he considers his business information to be his own private property. He doesn't want his competitors to see that.

I think we are trying to apply that principle. When we intercede with governmental regulations, we think we ought not to disclose their own business confidential data to the world and to their competitors. I think this was given such recognition by the Congress in passing the act in section 6(c) where it provides that "None of the agencies or departments exercising functions under this act shall publish or disclose information obtained hereunder which is deemed confidential or with reference to which a request for confidential treatment is made by the person furnishing such information."

Mr. DERWINSKI. May I interrupt at that point? Does your export license application contain language whereby the applicant may then designate that he wishes the information to be confidential?

Mr. McQUADE. The top of the application has this caption: "Confidential. Information furnished herewith is deemed confidential and will not be published or disclosed except in accordance with provision 6(c) of the Export Control Act of 1949."

There is the end of that provision which I did not read to you, "unless the head of the department or agency determines that the withholding thereof is contrary to the national interest."

So if you put those two together, when they apply they are entitled to expect that none of this data will be released unless the Secretary of Commerce decides it would be in the national interest to do so.

Mr. DERWINSKI. But isn't it correct that the Department withholds information even though the applicant does not request that this be treated as confidential?

Mr. McQUADE. He knows by filling in this form, by reading this, that it will be confidential, and by long history. You are correct in the sense that we have prejudged his desire by printing in this promise.

Mr. DERWINSKI. In other words, you are presuming on his behalf that this information must be confidential.

Mr. Fox. May I comment, Mr. McQuade?

In a private transaction between company A and company B, where one is located in the United States and one is located abroad, I see no reason why an American firm would want to give out that kind of private business information gratuitously. Therefore, I think the presumption following the words on the form of the application are that the firms prefer to keep the information as limited as the regulations of the Department permit.

Mr. DERWINSKI. My questions are directed to section 6(c). As I understand it, the Congress did not tell the Department that this information must be considered confidential. I am questioning now your interpretation of the intent of Congress and your administration of that law.

As I understand it, the law states that if these items are to be considered confidential, that the applicant must, in a positive way, indi-

cate so. If I understood you correctly, sir, you presume he wants it to be confidential.

Mr. McQUADE. There are two tests under the law. One of them is what you referred to. The second is simply information obtained hereunder which is deemed confidential.

As I read this section, the authority to "deem"—that is not a verb I use very often—the authority to deem lies with the Department of Commerce. We have ample evidence, with the candor with which such businessmen deal with us, that they rely on us not to disclose their business secrets. It is in that spirit that we think we are dead right in determining that the businessman who makes such an application expects and would want it to be confidential.

Mr. DERWINSKI. I presume you would have no objection to making some of this information available to the committee in executive session with the understanding that it would not be a matter of publication.

Mr. McQUADE. I believe that is right. My lawyer tells me at the request of the chairman of the committee we will make it available on a confidential basis to the committee.

Mr. DERWINSKI. Thank you, Madam Chairman.

Mrs. KELLY. Are you going to request such information, Mr. Derwinski?

Mr. DERWINSKI. After I consult with you.

Mrs. KELLY. Mr. McQuade, the Battle Act and Foreign Assistance Act refer to petroleum in conjunction with prohibitions on the export of strategic commodities. Yet the Department of Commerce licenses for export to Eastern Europe various types of highly developed equipment used in the production of petroleum and petroleum products.

Can you tell me why you do this? If you are supposed to restrict the export of petroleum, why do you license exports of refinery equipment to Eastern Europe?

Mr. McQUADE. I think the kind of products which you are talking about are the very ones which Mr. Frelinghuysen and I were talking about earlier. They are the difficult cases for us.

What we do is to take the particular commodity, try to examine it in the light of the series of questions which I read to you on pages 9 and 10, and in the light of that review we try to determine whether it is appropriate to allow this particular commodity to go.

If they can get comparable equipment from another free world country, or if they produce equipment of roughly the same comparability, to give one example, we would permit the American entrepreneur to sell it. Beyond that, the question is if it is something which would be applied to a significant military use.

It is, in general, true that we are unlikely to be able to affect the petroleum in such a significant scale in Eastern Europe and the Soviet Union that we could, by holding back on some of these techniques, significantly affect their total output or that percentage of it which would be used for military purposes. These are difficult cases. We turn them down as well as permit some.

Mrs. KELLY. It is certainly evident that as time goes on, Eastern Europe is going to need much more liquid fuel. The question is, there-

fore: Shall we help them produce their own fuel? Shall we export petroleum to that area? Or should we let them become more dependent on Soviet sources of supply? Which course serves our national interest?

Mr. McQUADE. We do not leap to the idea that we should sell things which are on the frontiers of technology. Those are tough cases, as I have said.

Mr. FRELINGHUYSEN. Why should we have any compunctions about selling oil itself as a commodity if we are willing to sell certain technology? Would it not be just as well to keep our hand in as a supplier of oil to Eastern Europe instead of having them depend on, say, the Soviet Union? In other words, just the reverse. Maybe we are being too negative about oil.

Mr. McQUADE. The only thing that confuses me, to be frank, is that I don't see why we should not bother to sell it.

Mr. FRELINGHUYSEN. I don't really know that I understand it, myself. I have less reason to admit this than you.

Mr. McQUADE. My curiosity, expressing my own ignorance, is that I did not realize there was prohibition on such sales except the unwillingness of the buyer. Certainly not under our controls. Is there under some other set of controls?

Mrs. KELLY. Both the Battle Act and the Foreign Assistance Act, as I understand it, refer to petroleum.

Mr. McQUADE. I think they are net exporters, anyway. I am not sure you could make it in commercial terms.

Mrs. KELLY. Who is a net exporter?

Mr. McQUADE. The Soviet bloc. There may be an inconsistency here, I agree.

Mrs. KELLY. It is true that it might be better from the standpoint of our national interest to sell them petroleum, and have them come to depend on us, rather than let them have the production equipment.

Mr. Fox, do you want to comment?

Mr. Fox. I don't think the control is homogeneous. I think the world supply and demand is such that the United States is not the sole exporter of petroleum. The net export areas are in the Middle East, Venezuela, the U.S.S.R., and Rumania. I don't feel we have much of a handle on the situation at all.

Mrs. KELLY. I remember back some years ago we ran into a problem with Soviet oil in Italy. About the same time, we put an embargo on the export of large-diameter pipe to the Soviet Union.

Mr. Fox. Given an emergency situation like that, there would be some value to be exercised in these controls.

Mrs. KELLY. Do you want to pursue this issue, Mr. Frelinghuysen?

Mr. FRELINGHUYSEN. The Battle Act language says, in describing the declaration of policy:

It is the policy of the United States to apply an embargo on the shipment of arms, ammunition and implements of war, atomic energy materials, petroleum, transportation materials for strategic value and items of primary strategic significance used in the production of arms, ammunition, and implements of war to any nation or combination of nations threatening the security of the United States.

In other words, it lumps it as one of the strategic items that we should concern ourselves with.

Mrs. KELLY. I understand that this listing has not been removed from the law. Isn't that correct?

Mr. McQUADE. If it is part of the law, as I understand from your reading, then obviously it has not been removed. Our holdback being a significant factor is very close to nil. They would not buy oil from the United States, which is far more expensive.

Mr. FRELINGHUYSEN. I would not argue the case, but it seems odd that petroleum is on the list when we can sell them the technology which allows them to produce the petroleum that they need.

Mr. McQUADE. I think you are right. If I read the temper of the chairman correctly, she is not suggesting that the conclusion to draw is that, therefore, you should not sell those pieces of producing equipment—

Mrs. KELLY. To me it seems contradictory. On the one hand, the law says that we should not export petroleum to eastern Europe even though we know they will get it from the Middle East less expensively. On the other hand, we sell them petroleum plants. I can't see the logic of selling a modern petroleum plant, as we did to Rumania, while we are supposedly trying to deny them petroleum. We have done it. I can't see doing that. I don't know how far similar situations apply to other items.

Mr. McQUADE. You give me some useful food for thought. I didn't know about this inconsistency.

Mr. FRELINGHUYSEN. For the sake of the record, I would like to say that section 620 of the Foreign Assistance Act, in referring to the prohibitions against assistance to Cuba, lists, among other items that cannot be transported, the same list basically—arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value or items of primary strategic significance used in the production of arms, ammunition, and implements of war.

In other words, petroleum seems, for one reason or another, to occupy a high place in the list of strategic items.

Mr. McQUADE. I might say in Cuba it makes a big difference because they are an island economy badly in need of oil.

Mr. FRELINGHUYSEN. I am interested in the New York Times item about the possible resumption of trade with Cuba. Did you happen to see that item?

Mr. McQUADE. I did not read the item.

Mr. FRELINGHUYSEN. There might be a revival of trade with Cuba if she met certain conditions. Those conditions were, I think, that she must sever all military ties with countries such as the Soviet Union and Communist China and stop her efforts to subvert other countries in this Hemisphere.

Mr. McQUADE. I am in the safe position of not being informed.

Mr. FRELINGHUYSEN. It is hard to know in this case, with respect to Cuba, what would be considered nonstrategic items if we should be considering resumption of trade.

Mr. McQUADE. That is right. You would have an interesting question. But if you are waging economic warfare against Cuba, one of the useful things to deny them would be petroleum products as dis-

tinguished from doing it against Eastern European countries that have large productions themselves.

Mr. FRELINGHUYSEN. If you go about reviving trade with Cuba, would you be engaging in economic warfare with them?

Mr. McQUADE. I think this could be turned around.

Mr. FRELINGHUYSEN. Could this be done without legislative action by Congress in view of what I thought were firm prohibitions or restrictions on such trade?

Mr. McQUADE. I believe this is an administrative determination.

Mr. FRELINGHUYSEN. Do you mean that you could resume trade with Cuba if the requirements—

Mr. McQUADE. I believe it lies within the authority of the administration to make that determination, that when we had our difficulties with Cuba, that the acts we took were taken under the authority which we already have from the Congress and we could then act to remove it.

Mrs. KELLY. That is not my understanding. I thought that last year Cuba was the one country that was clearly earmarked in law for no trade. In fact, as I recall, we went so far as to question whether it would be permissible to ship medical supplies through the United Nations, to which we gave contributions. That is how far the debate in the House went.

Mr. McQUADE. This is a correct statement of the policy which we now follow today. I thought the question was, do we have the legal authority under our act to remove Cuba from the limitation which you have just described, and we do. As you know, there is a sort of tangled group of acts, all of which have thrown into them one prohibition or another, and some of them may, indeed, have as a matter of statutory law, instead of administrative determination, this rule.

Mrs. KELLY. Will you submit to us proof of the position you have just outlined? I question it because I thought that the one tight provision in the law we had was the one relating to Cuba.

Mr. McQUADE. We will give you a statement for the record on that. (The statement referred to follows:)

Effective October 20, 1960, the U.S. Department of Commerce imposed an embargo on virtually all exports of U.S. commodities to Cuba.

The embargo on all trade with Cuba was announced by President Kennedy on February 3, 1962, under Proclamation 3447 (3 CFR 157, 1959-1963 Comp.). The Preamble to this Proclamation refers to Section 620(a) of the Foreign Assistance Act of 1961 (P.L. 87-195; 75 Stat. 445; 22 U.S.C. 2370) which provides in part that: " \* \* \* the President is *authorized* to establish and maintain a total embargo upon all trade between the United States and Cuba." [underscoring supplied] By "authorizing" rather than "directing" the President, Congress clearly wished to leave complete discretion in the executive as to whether or not to impose such an embargo and as to its duration. It should be noted that in the same section where Congress wished to prohibit the President from furnishing any assistance to the present government of Cuba it did so by using clearly mandatory language. A review of the legislative history of S. 1983 which was later enacted as Public Law 87-195, does not disclose any intent on the part of Congress to deprive the President of discretion in administering trade relations with Cuba, except with respect to furnishing assistance to the Castro government whether directly or through United States contributions to the U.N. Development Program.

Aware of the earlier action by the Department of Commerce, President Kennedy specifically stated in paragraph 3 of Proclamation 3447: "I do hereby direct the Secretary of Commerce *under the provisions of the Export Control Act of 1949 \* \* \** to continue to carry out the prohibition of all exports from the United States to Cuba \* \* \*."

As you know, the statutory provisions used by President Kennedy to implement this embargo were Section 5(b) of the Trading with the Enemy Act (50 U.S.C. App. 5) and the Export Control Act of 1949, as amended (50 U.S.C. App. 2021-2032). Both of these statutes also leave discretion in the President as to when and how long restrictive trade measures should be imposed to effectuate the policies of Congress.

In conclusion, it is my opinion that the embargo on trade with Cuba imposed by President Kennedy could be lifted without resort to Congressional action. I want to make it very clear, however, that this conclusion is based entirely on legal considerations and should not be construed as indicating any position by this Department with respect to resumption of trade with Cuba.

Mrs. KELLY. If that is the case, and if the executive branch can change our policy on trade with Cuba, what about the Organization of American States? Would our Government have to get their approval?

Mr. McQUADE. These are political activities.

Mrs. KELLY. Would we have to consult with them on that change?

Mr. McQUADE. It might be that that was the wisest thing as a political policy matter because in dealing with Cuba we have sought to deal with our partners who care about what happens in the Western Hemisphere. I assume it would be a good thing to do; to take any future acts in consultation with them.

I don't think it is required as a matter of law.

Mr. FRELINGHUYSEN. I think it might be a good thing to take it in consultation with Congress. Again, section 620 of the Foreign Assistance Act, in itself, I grant you, refers to aid under this act, but it certainly would seem to express a congressional policy with respect to trade, too.

I admit it is not quite as broad as that, but I would like to read this Proclamation 344 which came in this compilation from the Library of Congress which points out in the second "whereas" clause:

Whereas, the Congress of the United States in section 620 of the Foreign Assistance Act of 1961 (45 Stat. 445) as amended, has authorized the President to establish and maintain an embargo upon all trade between the United States and Cuba—

This seems to assume that the directive from Congress is somewhat broader than it actually is under the terms of 620(a).

From a legal point of view, I think it is an interesting question. I just had assumed that there would be a statutory prohibition.

By the way, that proclamation was dated February 3, 1962, by President Kennedy, that I was just reading from.

Mr. McQUADE. Obviously a major change in our policy toward Cuba could involve, and as I say, I don't mean to say that is going to happen, but it certainly could involve some steps on a quid pro quo basis which might include some relaxation of the character of the embargo.

Mr. FRELINGHUYSEN. I think this is what Secretary Oliver was suggesting to the Foreign Relations Committee in the article that was in the Times.

Mr. McQUADE. If that is indeed the case, it would make sense in light of that resolution for appropriate consultations to be had with the Congress.

Mrs. KELLY. Any further questions, Mr. Frelinghuysen?

Mr. FRELINGHUYSEN. Only one very brief one, Madam Chairman.

It has been said that this country restricts the export to Eastern Europe and the Soviet Union of commodities which simultaneously

we are importing from those countries. Is that true, and if so, what commodities are involved in this two-way process?

Mr. McQUADE. I don't know whether it is true, but the only kind of thing I could think of, and don't hold me to this answer, is that they buy wheat on occasions and there may be occasions when there are wheat surpluses rather than wheat deficits.

Mr. FRELINGHUYSEN. If you did have some information on that, you might submit it.

(The following information was subsequently supplied:)

SUMMARY OF COMMODITIES IMPORTED INTO THE UNITED STATES DURING 1966 FROM EASTERN EUROPE WITH STATUS OF U.S. EXPORT LICENSE REQUIREMENTS

The following table contains a summary of the principal commodities imported into the United States from Eastern Europe during 1966, and an indication in the right-hand column of those requiring a validated license for export from the United States to Eastern Europe:

1966 imports <sup>1</sup>	Dollar value (thousands)	U.S. validated license requirement
Meat and meat preparations.....	\$37,622	None.
Platinum group metals.....	19,048	Validated license, except for exports to Poland and Rumania.
Iron and steel.....	18,838	Validated license, except for items such as pig iron, certain carbon steel products, and cast iron.
Fur skins, undressed.....	12,201	None.
Metalworking machinery.....	8,641	Validated license.
Glass and glassware.....	7,410	None, except for specialized types, e.g., bulletproof, aircraft and electron tube blanks.
Chrome ore.....	6,323	None.
Textile fabrics, yarn and related products.....	6,297	None, except for tire cord, parachute fabrics, and other specialized types.
Footwear.....	4,456	None.
Diamonds and other precious stones.....	3,553	None.
Fruit and vegetables.....	3,473	None.

<sup>1</sup> Detailed information on composition of these commodity categories is not available. Consequently it is not possible to correlate precisely the validated export license requirements with the imports.

Mr. McQUADE. There are some basic commodities which we get from the Soviet Union which are very useful to us, platinum and palladium, and some of these rare kinds of metals. So we do get benefits from this trade, if you look at it from the point of view of what we buy from them. I have not heard of that particular example.

Mrs. KELLY. It is my understanding that nearly one-half of our imports from the Soviet Union consists of commodities that may be considered as being of strategic value to the economy of an industrial nation. These commodities include magnesium, molybdenum, titanium, iridium, platinum, palladium, chrome, and the like. As a matter of fact, I believe that the Soviet Union is today a key supplier of chrome—particularly since the imports of Rhodesian and South African chrome have come to an end.

Mr. McQUADE. I think chrome is one of the main items you could get both in the Soviet Union and in the area of Africa which is blocked off by the Rhodesian trade controls. It has been useful to us to be able to get some supplies of that, as well as some of these other sorts of metals from the Soviet Union.

Mrs. KELLY. Do you agree with that policy? That question was asked previously by some other members of the committee, so I would like to have your reaction to it.

Mr. McQUADE. What do you mean by "that policy"?

Mrs. KELLY. Of barring these products if they come from Africa and getting them from Russia.

Mr. McQUADE. If I were to look at the world solely through my commercial eyes, I would have maybe one answer, but what is at stake here is that under the United Nations we have some law which was passed by the Congress which permits the United States to exercise export control to carry out the United Nations resolution.

What is at stake here, we are abiding by a United Nations resolution in having these controls on Rhodesia. So it is really a question of balancing out that political policy against another political policy and I don't know how they will come out.

Mrs. KELLY. Thank you, Mr. McQuade.

The subcommittee will now stand adjourned subject to the call of the Chair.

(Whereupon, at 3:20 p.m., the subcommittee adjourned, to reconvene at the call of the Chair.)

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2. The second part of the paper is devoted to a detailed analysis of the case of the system of equations

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## EAST-WEST TRADE

### 7. Department of Justice and the Atomic Energy Commission

WEDNESDAY, MARCH 27, 1968

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 2 p.m. in room 2255, Rayburn House Office Building, Hon. Edna F. Kelly (chairman of the subcommittee) presiding.

Mrs. KELLY. The subcommittee will please come to order.

We meet today in continuation of our hearings on East-West trade.

During our previous sessions we received testimony from a number of executive departments directly involved in administering restrictions on East-West trade.

Today we will hear from two more—the Department of Justice and the Atomic Energy Commission. Their testimony will bring to a close this first part of our undertakings.

As I mentioned at the outset, the purpose of these initial hearings is simply to put on record the various laws and regulations which affect East-West trade—to see to what extent they are consistent with each other—and to ascertain whether and to what extent they may support our declared foreign policy objectives.

I must say that based on the testimony which we have received thus far, much work needs to be done in this field. A number of our legislative enactments are clearly at variance with each other and with the policy objectives which are ostensibly committed to pursue abroad.

These conflicts and inconsistencies constitute an unnecessary burden for our Nation—both for our Government and for our industry—in dealing with other countries.

We will begin today by taking testimony from the Honorable Edwin L. Weisl, Jr., Assistant Attorney General, Department of Justice. Mr. Weisl, we are ready to hear from you.

And if you desire, since your testimony is only four pages, you may read it.

#### STATEMENT OF HON. EDWIN L. WEISL, JR., ASSISTANT ATTORNEY GENERAL, CIVIL DIVISION, DEPARTMENT OF JUSTICE

Mr. WEISL. I think it might be helpful. First of all, I am accompanied today at this hearing by Mr. Irving Jaffe and Mr. Anthony Mondello, attorneys at the Department of Justice, both of whom have long experience in the areas to which my testimony relates.

I am pleased to appear before your committee on behalf of the Department of Justice, in response to your request that we testify with respect to the Trading with the Enemy Act, General Licenses 94 and 101, and the Johnson Act in connection with your committee's continuing review of developments in East-West trade.

The Trading With the Enemy Act, originally enacted on October 6, 1917 (40 Stat. 415; 50 U.S.C. App. § 1, et seq.), as amended, is operative during periods of war or of national emergency declared by the President.

It authorizes the President or any agency designated by him to investigate, regulate, or prohibit any transactions in foreign exchange or involving any property in which any foreign country or a national thereof has any interest, by any person, or with respect to any property, subject to the jurisdiction of the United States.

In April 1940, the United States instituted blocking controls over foreign assets in this country (E.O. 8389, 5 F.R. 1400) in order to prevent Germany from preempting and hypothecating to their own use property in the United States owned by persons within territories which the German armed forces overran and occupied in the war of aggression it was then waging.

Initially, the controls affected only Norway and Denmark, but as Germany and later Japan extended their conquest and overran other countries, the order was amended to include those countries.

By the time of the amendment of the Executive Order on June 14, 1941, the blocking controls embraced 34 named countries. That amendment extended the controls to all remaining countries of continental Europe and it also contained provision for the automatic freezing of the assets of any other territory that might be occupied or overrun by the military forces of the Axis powers.

After the entry of the United States into World War II, enemy property in this country that had theretofore been blocked under these regulations was seized and reduced to possession by the United States.

Originally, the President's authority to block money and property in this country was delegated to the Secretary of the Treasury and the Alien Property Custodian, and these functions were exercised by those officials during World War II.

Subsequently, on August 20, 1948 (E.O. 9989, 13 F.R. 4891), jurisdiction over freezing controls was transferred to the Attorney General as successor to the Alien Property Custodian.

On and after May 16, 1966, the delegation of authority to the Attorney General for the administration of controls exercisable under Executive Order 8389 was terminated, and responsibility for such administration was reassigned to the Secretary of the Treasury, including the administration of General Licenses 94 and 101 (E.O. 11281, May 13, 1966, 31 F.R. 7215).

The national emergency declared by President Truman on December 16, 1950 (Proc. No. 2914, 15 F.R. 9029) makes the Trading with the Enemy Act and the regulations currently applicable.

The Department of Justice no longer has any regulatory responsibility with respect to money or property in the United States subject to the above-mentioned orders and regulations, or with respect to commercial transactions involved in East-West trade policies.

The regulations pertaining to foreign funds and assets which were codified, while administered by the Department of Justice, in part 511 of title 8 of the Code of Federal Regulations are now codified in part 520 of title 31, Code of Federal Regulations.

The Johnson Act (act of Apr. 13, 1934, as amended, 48 Stat. 574; 18 U.S.C. 955), prohibits the purchase or sale of bonds, securities, or other obligations of any foreign government or political subdivision thereof, or any organization or association acting on their behalf, or any loan to such foreign government, political subdivision, organization, or association while such government or organization is in default in the payment of its obligations to the United States.

A fine of not more than \$10,000 or imprisonment for not more than 5 years or both, are imposed for the violation of that act.

The Attorney General has issued several opinions construing this statute. These are: (37 Op. Atty. Gen. 505 (1934)), (37 Op. Atty. Gen. 526 (1934)), (38 Op. Atty. Gen. 580 (1934)), (39 Op. Atty. Gen. 151 (1938)), (39 Op. Atty. Gen. 398 (1939)), and (42 Op. Atty. Gen. 15 (1963)).

I would like to hand you two printed copies of a more recent opinion of the Attorney General concerning the applicability of the Johnson Act to certain kinds of transactions for financing export sales by American firms of nonstrategic goods or services to the Soviet Union and certain Eastern European countries which are in default in payment of their obligations to the United States.

By the way, I would like to hand up two copies of the most recent opinion which sets forth the entire history of the Attorney General's opinions in this area.

Mrs. KELLY. Without objection, we will put these in the record.  
(The document referred to follows:)

#### OPINION OF THE ATTORNEY GENERAL OF THE UNITED STATES

##### JOHNSON ACT—EXPORT SALES TO COUNTRIES IN DEFAULT IN PAYMENT OF THEIR OBLIGATIONS TO THE UNITED STATES

The Johnson Act (April 13, 1934, 48 Stat. 574, 18 U.S.C. 955) does not prohibit transactions by United States firms or banking institutions for the financing of export sales of particular goods or services, provided that the terms of such transactions are based upon bona fide business considerations and do not involve a public distribution of securities.

The applicability of this criminal statute should depend upon the economic function of a transaction, rather than on its "purely formal characteristics." 42 Op. A.G. No. 15 (October 9, 1963)

The Johnson Act prohibits general purpose loans to defaulting foreign governments made with moneys obtained through the sale of their instruments of indebtedness to the American public.

MAY 9, 1967.

THE SECRETARY OF STATE.

DEAR MR. SECRETARY: This is in response to Acting Secretary Nicholas deB. Katzenbach's request for my opinion concerning the applicability of the Johnson Act (April 13, 1934, c. 112, 48 Stat. 574), now codified as 18 U.S.C. 955,<sup>1</sup> to

<sup>1</sup> 18 U.S.C. 955 provides:

"Whoever, within the United States, purchases or sells the bonds, securities, or other obligations of any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after April 13, 1934, or makes any loan to such foreign government, political subdivision, organization or association, except a renewal or adjustment of existing indebtedness, while such government, political subdivision, organization or association, is

certain kinds of transactions for financing export sales by American firms of nonstrategic goods or services. The prospective buyers would include the governments of the Soviet Union and certain Eastern European countries, which are in default in payment of their obligations to the United States. The Johnson Act makes it an offense, with exceptions not material here, for any person in the United States to purchase or sell "the bonds, securities, or other obligations" of, or to make "any loan" to, such a government or any organization acting on its behalf.

Vol. 42, Op. No. 27.

Commercial sales for export can be financed in various ways. For example, American sellers may extend credit directly to foreign buyers. They may also assign or negotiate to financial institutions the contract rights or commercial paper resulting from such sales. Alternatively, export sales may be financed through lines of credit extended to foreign buyers or their banks, as when letters of credit are issued by American banks in favor of American exporters at the request of such foreign buyers or banks. And today, as Acting Secretary Katzenbach's letter points out, export sales to some of the countries in question may have to be financed through receipt of payment from foreign buyers in kind rather than in currency, or through deferrals of payment pending the development of earnings from joint enterprises. The types of arrangements involving lines of credit, barter transactions and deferrals pending development of earnings are specifically included within the Acting Secretary's inquiry concerning the scope of the Johnson Act. He expressed the view of the Department of State that if a credit transaction, regardless of its form, is connected with an export sale of products or services, it does not fall within the prohibitions of the act unless it is so unreasonable in the commercial sense as to constitute a circumvention of the purposes of the act.

There have been two formal opinions of the Attorneys General on the application of the Johnson Act to various export financing transactions: 37 Op. A.G. 505 (1934) (Attorney General Homer Cummings); and 42 Op. A.G. No. 15 (1963) (Attorney General Robert F. Kennedy).

Shortly after passage of the act, Attorney General Cummings ruled that the prohibition against the purchase and sales of bonds, securities, and other obligations was intended to encompass instruments of the kind "which had been sold to the American public to raise money for the use of the foreign governments issuing them—not contemplating foreign currency, postal money orders, drafts, checks, and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries." 37 Op. A.G. at 512. He went on to say that the comments just quoted apply to acceptance or time drafts, provided that such trade financing transactions are "conducted in good faith \* \* \* and not as mere subterfuges to circumvent" the purpose of the act. *Id.*, at 513.

Attorney General Kennedy's opinion dealt with the application of the act to contemplated sales on credit of agricultural commodities to the Soviet Union and Eastern European bloc countries. He concluded that "neither sales transactions by American exporters on a deferred-payment basis, nor payments made to such exporters by third parties in return for an assignment of the right to payment in connection with such sales," were "loans" within the meaning of the act. He further concluded that the "forms of credit transactions in which private exporters commonly engage in connection with export sales on credit, involving the assignment or negotiation of contract rights or commercial paper," would not violate the act's prohibition against the purchase or sale of bonds, securities, or other obligations of defaulting governments. He drew a

in default in the payment of its obligations, or any part thereof, to the United States, shall be fined not more than \$10,000 or imprisoned for not more than five years, or both.

"This section is applicable to individuals, partnerships, corporations, or associations other than public corporations created by or pursuant to special authorizations of Congress, or corporations in which the United States has or exercises a controlling interest through stock ownership or otherwise. While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this section shall not apply to the sale or purchase of bonds, securities, or other obligations of such government or any political subdivision thereof or of any organization or association acting for or on behalf of such government or political subdivision, or to making of any loan to such government, political subdivision, organization, or association."

sharp distinction between obligations of a type widely distributed to the public, which are covered by the act, and "obligations which are not covered because they are issued in the ordinary course of trade and normally move exclusively within the relatively restricted channels of banking and commercial credit."

42 Op. A.G. No. 15, *supra*, at 4.

Attorney General Kennedy went on to say:

"Direct recourse to the legislative history of the act confirms that both distinctions here made—that between loans and commercial credit, and between securities and commercial paper—reflect accurately the intention of Congress and the policy it sought to implement. As noted by Attorney General Cummings, it was obviously not the purpose of the Congress to interfere with the ordinary incidents of trade relations with the defaulting nations as distinguished from participation by them in the capital markets of the United States." *Id.*, at 6.

The legislative history referred to in both opinions supports the conclusion that there is no valid distinction under the Johnson Act between the particular types of export financing considered in those opinions and the other types of export financing mentioned above.

The purpose of the Johnson Act is made clear in the Senate Committee report, which stresses that this legislation was designed to prevent a recurrence of the practice of selling to the American people "billions of dollars of securities of certain foreign countries, \* \* \* with little thought of final payment \* \* \*." S. Rept. 20, 73d Cong., 1st sess. 1 (1933). Similarly, Representative Sam D. McReynolds, of Tennessee, who was in charge of the bill during its consideration by the House, explained that the transactions at which the bill was aimed were loans to foreign governments made with moneys obtained through the sale of their instruments of indebtedness to the American public. 78 Cong. Rec. 6048-6049. These were general purpose loans, not financing arrangements tied to specific export sales, even though in some cases it had been anticipated in a general way that the moneys raised by the loans would be used to purchase American products. See 78 Cong. Rec. 6055 (remarks of Representatives Thomas F. Ford, of California); *Hearings before the Senate Committee on Finance on the Sale of Foreign Bonds or Securities in the United States*, 72d Cong., 1st sess. 133, 357 (1931-32).<sup>2</sup> Representative Hamilton Fish, Jr., of New York, noted that the bill was not intended to "prevent the free flow of commerce \* \* \* between defaulting nations and ourselves." 78 Cong. Rec. 6050.

The scope of the Johnson Act, I believe, it is not to be measured in terms of distinctions among the various forms of financing export trade. The applicability of this criminal statute should depend on the economic function of a transaction, rather than on its "purely formal characteristics." 42 Op. A.G. No. 15, *supra*, at 6. Although the cited opinion did not deal with the three forms of financing about which Acting Secretary Katzenbach's letter explicitly inquires—lines of bank credit, barter arrangements, and deferrals of payment pending development of earnings—I can discern no valid ground of distinction, from the standpoint of the applicability of the Johnson Act, between these forms of financing and the ones which in that opinion were found to be generally permissible under the act. The reasoning of the opinion supports the general conclusion that financing arrangements lie beyond the scope of the act if they are directly tied to specific export transactions, if their terms are based upon bona fide business considerations, and if the obligations to which they give rise "move exclusively within the relatively restricted channels of banking and commercial credit." *Id.*, at 4.

On the other hand, as the same opinion suggests, if the financial form of a transaction is a subterfuge to conceal what is, in effect, a general purpose loan, it would violate the act. Nor does the act permit any arrangement that contemplates the marketing of foreign government obligations to the American public.

As a criminal statute, the Johnson Act is to be narrowly construed: "The act is a criminal statute, and therefore must be construed strictly, 'lest those be brought within its reach who are not clearly included,' *United States ex rel. Marcus v. Hess*, 317 U.S. 537, 542 (1943); *United States v. Resnick*, 299 U.S. 207

<sup>2</sup>In this connection it may be noted that section 2 of the Johnson Act makes an exception for activities, otherwise prohibited, when they are performed by Federal Government corporations. Apparently this exception was designed, in part, to permit the making of general purpose loans to defaulting foreign governments through such agencies as the Export-Import Bank, originally authorized by Executive Order 6581 of February 2, 1934, issued shortly before enactment of the Johnson Act.

(1936); *Kraus & Bros. v. United States*, 327 U.S. 614, 621-622 (1946)." 42 Op. A.G. No. 15, *supra*, at 4.

The general principles expressed in the legislative history and the opinions cited above lead me to the conclusion that the Johnson Act is not to be construed as prohibiting transactions by United States firms or banking institutions for the financing of export sales of particular goods or services, provided that the terms of such transactions are based upon bona fide business considerations and do not involve a public distribution of securities.

Sincerely,

RAMSEY CLARK.

Mrs. KELLY. Thank you, Mr. Weisl.

On page 3 of your report, you state that the national emergency declared in 1950 is still in effect and that this makes the Trading With the Enemy Act currently applicable.

Mr. WEISL. Yes; Madam Chairman.

Mrs. KELLY. What is the main thrust of the controls derived from that act insofar as Eastern Europe is concerned?

Mr. WEISL. At the moment, assets of certain East European countries remain blocked by the Department of the Treasury which has jurisdiction over them. That has been done by general license No. 101 which unblocked almost all foreign assets with the exception of certain countries, mainly in Eastern Europe, Bulgaria, Hungary, Rumania, Czechoslovakia, Poland, Estonia, Latvia, Lithuania, and at the same time, East Germany.

These blocking controls have been relaxed as to Bulgaria, Rumania, and Poland since then.

As I understand it, the purpose of continuing the blocking of some of these East European countries was to await their entry into financial agreements with the United States under which, for example, properties of American citizens in these countries would be returned to them.

As soon as this type of agreement was entered into, then we were willing to unblock the assets of these countries in our country and return them to the nationals of these countries.

There is a second problem, however, that in returning blocked assets of nationals of these countries we have insisted, and gone to great pains to make sure, that the money does not go to the Government but to the actual owners thereof. That has also entered into the decision as to whether to continue blocking or not.

Mrs. KELLY. This committee presently has a bill under consideration which relates to certain Eastern European claims. Now, are there any other assets frozen?

Mr. WEISL. To the best of my knowledge, there are not, other than these countries under this license. There are assets of Communist countries which may be frozen under the Treasury Department's foreign assets control authority.

Mrs. KELLY. I would like a complete breakdown of that for our report. You can submit it to us, exactly what the properties are and what countries are involved.

(The information referred to follows:)

COUNTRIES INVOLVED IN FREEZING CONTROLS WITH A BREAKDOWN OF PROPERTIES NOW FROZEN UNDER LAWS OR REGULATIONS OF THE UNITED STATES

(a) Communist China, North Korea and North Viet Nam: The Foreign Assets Control Regulations (31 CFR 500.101-500.808) issued under section 5(b) of the Trading with The Enemy Act, as amended (section 5, 40 Stat. 415 as

amended; 50 U.S.C. App., § 5(b)) block all property in the United States in which any Communist Chinese, North Korean or North Vietnamese interest exists or has existed since the effective date of the Regulations. The effective date is December 17, 1950 for Communist China and North Korea, and May 5, 1964 for North Viet Nam. In addition, the Regulations prohibit all unlicensed financial or commercial transactions with the designated countries or their nationals.

A census was taken in 1951 of blocked Chinese property in the United States. There is enclosed a statistical table setting forth the value of United States assets owned by nationals of mainland China reported on the census report form as of December 18, 1950, classified by type of asset. Changes in the totals are known to have occurred in the interim inasmuch as it has been the policy since the outset of the freezing control to authorize types of transactions regarded as not inimical to the interests of the United States. In addition, changes in the enclosed statistics have occurred as a result of changed market values of assets since 1951; changes from one form of asset (*e.g.*, bank account) to another (*e.g.*, securities); and, changes in status of individuals, and for other reasons. The 1951 census was the only one taken. Accordingly, the enclosure represents the only available data as to the amounts of Chinese assets which are being held blocked for possible use in settling private American claims against Communist China for confiscation of American property, or other types of claims.

There are no North Korean or North Vietnamese assets known to be blocked under these Regulations.

(b) Cuba: The Cuban Assets Control Regulations (31 CFR 515.101-515.808, issued under section 5(b) of the Trading with the Enemy Act and also under section 620(a) of the Foreign Assistance Act of 1961 (75 Stat. 445; Proclamation 3447) block all Cuban assets in the United States and prohibit all unlicensed financial and commercial transactions with Cuba or nationals thereof. A census of blocked Cuban assets in the United States was conducted by the Treasury Department as of July 8, 1963, the effective date of the Regulations. There is enclosed a statement prepared by the Department containing a description of the reporting requirements, a summary of the results and two statistical tables. The first table sets forth the value of blocked assets in the United States owned by Cuba or by Cuban nationals, by type of asset and location of owner. The second table states the value of United States assets owned by Cuba or by Cuban nationals, classified by type of asset and type of owner. Changes in the totals have since occurred for the same reasons given above with respect to blocked Chinese assets.

(c) Residual blocked property under the World War II program: Blocking controls were issued during World War II as part of the United States program to deal with the Axis powers and their invasions and occupations of friendly countries. These controls, issued under section 5(b) of the Trading with the Enemy Act and Executive Order No. 8389, as amended, have been lifted except with respect to property of the following countries and of nationals thereof who were within those countries on the date indicated: Hungary, January 1, 1945; Czechoslovakia, Estonia, Latvia, Lithuania, December 7, 1945; and East Germany, December 31, 1946. Data as to the amounts and types of the property remaining blocked is not available.

#### TREASURY DEPARTMENT, OFFICE OF FOREIGN ASSETS CONTROL—CENSUS OF BLOCKED CUBAN ASSETS IN THE UNITED STATES

##### I. BACKGROUND OF THE CENSUS

The Office of Foreign Assets Control of the Treasury Department has conducted a census of Cuban assets in the United States which were blocked under the Cuban Assets Control Regulations [31 CFR 515.101 et seq.]. The Regulations were issued by the Secretary of the Treasury on July 8, 1963 under Section 5(b) of the Trading With the Enemy Act of 1917, as amended, to implement the policy of an economic embargo of Cuba set forth in Proclamation 3447, which was issued by the President under Section 620(a) of the Foreign Assistance Act of 1961, P.L. 87-195. The Regulations superseded the Cuban Import Regulations which were issued on February 7, 1962 to accomplish the more limited objective of preventing unlicensed imports of Cuban goods or goods which passed through Cuba or contained Cuban components. The Cuban Assets Control Regulations prohibit as of July 8, 1963 all persons subject to the jurisdiction of the United States from en-

gaging in any direct or indirect financial or commercial transaction with the Cuban Government or with Cuban nationals except as licensed by the Treasury. In addition to imposing a total embargo on dealings with Cuba, the Regulations freeze all Cuban-owned assets located within the jurisdiction of the United States.

## II. SCOPE OF THE CENSUS

The Census was undertaken in order to obtain reasonably accurate data concerning Cuban assets blocked in the United States by the Cuban Assets Control Regulations. It was felt that such data would be useful to the Foreign Assets Control in its administration of the Cuban Assets Control Regulations; to the Congress in considering any proposed claims settlement legislation; or to the State Department in any possible future claims settlement negotiation with a successor regime in Cuba.

The census report forms were distributed to approximately 8,000 individuals, corporations, banks and other organizations in the United States. Forms were sent to persons and organizations on the Control's standard mailing list and to others not on the mailing list who were thought to hold blocked Cuban assets. Additional forms were distributed by the Federal Reserve Banks to financial institutions in their respective districts. The Regulations requiring the filing of census reports were published in the Federal Register on January 31, 1964 and were publicized in the press and through the Federal Reserve Banks. In this regard, it is likely that the census totals are incomplete since there are undoubtedly persons in the United States holding blocked Cuban assets who were unaware of the reporting requirements despite the distribution and publication described herein. The deadline for filing reports was March 15, 1964. Extensions of time for filing were granted where necessary.

## III. THE REPORTING REQUIREMENT

The Cuban Census Regulations provided for two types of reporting forms. The first type, Form TFR-607, was used for reporting property in the United States in which Cuba or Cuban nationals had an interest. The second type, Form TFR-608, was used for reporting organizations in the United States substantially owned or controlled by Cuba or its nationals, *e.g.*, United States branches of Cuban companies.

The Census Regulations required reports from all individuals, corporations and other organizations subject to the jurisdiction of the United States holding blocked Cuban property valued at \$1,000 or more. Cuban property of less than \$1,000 was not included in the reporting requirements because it was felt that the total of Cuban assets below \$1,000 would not be a significant amount, and therefore did not warrant the additional administrative burden on reporters. Persons having control, custody, or possession of assets in which there was a Cuban interest on July 8, 1963 were required to report those assets. Thus, reports were required, for instance, from lawyers administering estates having Cuban beneficiaries, from insurance companies with policies on Cuban lives, from banks with Cuban accounts, and from corporations with Cuban stockholders or bondholders.

Persons in the United States who had contracts with Cubans or were indebted to Cubans, or against whom Cubans asserted claims in connection with pre-freezing transactions, were required to report the Cuban interests involved. All property in which there was a Cuban interest was required to be reported whether or not the reporter also had a claim against Cuba or a Cuban national or contested the validity of the Cuban claim against him. Reports in this category included accounts due Cuban firms by United States firms for tobacco, sugar and other goods sold to the United States before the embargo cut off Cuban trade. Some of the Cuban claims have become the subject of litigation brought by the Cuban Government as successor to nationalized Cuban companies. The amounts claimed by Cuba in such litigation were reportable Cuban assets, even though the U.S. firm's liability was disputed or was subject to counterclaims against the Cuban Government based on expropriation of property.

All corporations, partnerships, trusts and other organizations organized in the United States were required to report with respect to any shares, funds, debentures or other securities in which there was a Cuban interest.

Reports were also required for the assets in the United States of corporations and other organizations organized under the laws of Cuba or having their principal places of business in Cuba and for the assets of firms substantially owned or controlled by Cubans.

Excluded from the reporting requirements were the following types of property: patents, trademarks, copyrights and inventions, except royalties due and unpaid. The property of Cuban refugees in the United States who are unblocked under the Regulations and thus able to dispose freely of their United States property, was not required to be reported.

Form TFR-607 classified the reportable property under the following categories:

1. Bullion, currency, and coin.
2. Deposits.
3. Notes, drafts, and debts to national maturing within one year from date of obligation.
4. Other notes, drafts, and debts to national.
5. Financial securities (stocks and bonds, etc.) payable in dollars.
6. Financial securities (stocks and bonds, etc.) not payable in dollars.
7. Interests of associated foreign persons.
8. Miscellaneous personal property and personal property liens.
9. Real property, mortgages, and other rights to real property.
10. Interests in estates and trusts.
11. Insurance policies and annuities.

Form TFR-607 also required information as to whether the Cuban national whose property was reported was an individual, corporation, partnership, unincorporated association or other entity. The reporter was likewise instructed to identify itself as a principal agent, trustee, banker or other entity. Reporters were instructed to value the property reported at the market price as of the close of business on July 7, 1963, or if market price was unknown, an estimated value on that date. The Control recognized that in some cases the value of property might be indeterminable, and in such instances the reporter was not required to report the value of the property but only to indicate the ownership of the property and to give a description of it. Where the only values obtainable were in foreign currencies, reporters were instructed to convert the values into U.S. dollar amounts according to the exchange rates set forth in the Census Regulations.

#### IV. RESULTS

##### A. Summary

Excluding duplicate reports for the same property and other unnecessary reports, 3750 TFR-607 reports were filed by approximately 200 different reporters. Only one TFR-608, reporting the U.S. branch of a Cuban enterprise, was filed. The Control did not expect to receive many TFR-608 reports since the number of Cuban-owned firms in the United States was believed to be negligible. The Control expects to receive a few additional reports from organizations that have been granted extensions in their reporting deadlines beyond the date of this report. The majority of the reports filed covered bank accounts, insurance policies and stocks and bonds registered in the name of Cubans. The reporting banks were concentrated in New York City and the Miami, Florida area.

A total of \$148.8 million of Cuban assets in the United States was reported. Of this total \$19.6 million is reported to be property owned by or claimed by the Cuban Government and its agencies. As will be explained below in greater detail, most of this \$19.6 million does not constitute a net asset of the Cuban Government since most of the property claimed by Cuba is in the form of claims asserted against institutions in the United States. These institutions are believed to have claims against Cuba greatly in excess of the amounts reported to be the property of Cuba.

Approximately \$70 million of the total sum represents stocks and bonds issued by the subsidiary of a U.S. holding company to persons in Cuba. The subsidiary operated almost exclusively in Cuba. The subsidiary's indebtedness to Cubans was secured principally by its physical assets in Cuba which were expropriated by the Castro regime in 1960. Consequently, the \$70 million is for all practical purposes unsecured and there is no property in the United States which could be liquidated and used to satisfy the claims of Americans against Cuba.

The census totals indicate that Cuban individuals as of July 8, 1963 owned or claimed 26 percent of the total Cuban assets in the United States, while corporations and other organizations in Cuba owned approximately 61 percent. The Cuban Government and its agencies were reported as having an interest in 13 percent.

Of the total sum reported, \$125.1 million was reported by United States corporations and other organizations with branches, subsidiaries or other assets in Cuba which were expropriated. These companies have potential claims against

Cuba greatly in excess of the amount reported by them as blocked property owed to Cuba or Cuban nationals. A detailed statistical breakdown of the specific types of property is appended.

It should be borne in mind that the Census figures are as of July 8, 1963, and there have been frequent changes in the totals since that date. The primary reason for this is that the assets of Cuban refugees who have come to the United States after July 8, 1963, are unblocked under a general license.

Secondly, reporters such as banks, large corporations and stockbrokers relied in many instances on the address of record on their books as evidence that the property owner was in Cuba on July 8, 1963 and therefore reported the property as blocked. If, however, the property owner was in fact out of Cuba on that date, but had failed to notify the reporter of his change of address, then the account would be unblocked upon receipt of evidence to this effect.

Again, debits to blocked accounts are licensed by the Treasury for such purposes as payment to Federal and State taxes, bank charges, expenses of administration of blocked estates, etc. All of these licensed debits would result in changes after July 8, 1963, in the blocked amounts. Similarly, additions to blocked accounts would result from earnings such as interest on savings accounts, stock dividends, etc.

#### *B. Analysis of Individual Blocked Accounts*

The property in the United States of individual persons in Cuba totalled \$38.4 million. This includes \$17.5 million in unsecured obligations of the firm described in (E) below. Of the remainder, \$10.8 million is in demand deposits and savings accounts primarily in New York and Florida banks. A majority of these individual accounts fall within a \$1,000 to \$10,000 range and are in most instances owned jointly by husband and wife, parents and children, or brother and sister. The owners of these accounts appear to be middle-income Cuban families who placed some of their savings in the United States for safekeeping.

Included in the total amount reported for individuals in Cuba are the accounts of residents of Cuba who are not Cuban citizens. The total number of such persons is not large but includes several United States citizens resident in Cuba as well as foreign diplomatic personnel and other non-Cubans. The Control has issued a few specific licenses unblocking the United States accounts of foreign embassies in Cuba and the United States accounts of foreign diplomatic persons in Cuba. These licenses are granted only on the application of the interested party. Many diplomats in Cuba who may be entitled to unblocking licenses had not applied for unblocking on July 8, 1963 and their accounts are therefore included in the totals. Also, Americans living in Cuba may withdraw up to \$1,000 per month from their blocked accounts for necessary living expenses in Cuba of themselves and their households under a general license in the Regulations. Several Americans are known to be using this authorization.

Insurance companies and corporations report \$5.3 million due to Cubans under insurance policies and annuity plans. This total includes various pension accounts due, in most cases, to former Cuban employees of branches or subsidiaries in Cuba of American firms. There are approximately 100 blocked pension accounts due to agricultural workers alone. There are also a few individuals in Cuba who are entitled to United States veteran's benefits or social security benefits. No reports were required for insurance policies on Cuban lives issued by the Cuban branches of American insurance companies if the policies were payable in pesos only in Cuba. Policies payable in dollars in the United States were required to be reported, but the companies involved do not have access to their branches' records in Cuba, and have not yet furnished complete reports. These companies are presently engaged in litigation of their obligations to pay on such policies.

#### *C. Analysis of Blocked Assets of the Cuban Government*

The total assets in the United States of the Cuban Government and its agencies was reported to be \$19.6 million. There is, however, some duplication in this total. For example, United States banks reported deposits held for Cuban banks. At the same time, checks and letters of credit outstanding against such deposits were blocked and were required to be reported separately. Therefore, in a few instances there were a number of reports involving the same bank deposit. The total government assets consists of bank deposits, letters of credit and checks, funds held by American banks acting as fiscal agents for various pre-Castro Cuban bond issues and amounts claimed by Cuba in pending litigation. Cuban Government general bank deposits total approximately \$725,000;

letters of credit and blocked checks drawn by Banco Nacional de Cuba total approximately \$700,000; special accounts held by American banks as fiscal agents for Cuban Government bond issues total about \$675,000; claims asserted by the Government of Cuba against United States firms for debts allegedly due to Cuba in its own right or as successor to nationalized Cuban firms total approximately \$12.5 million. In addition, there are certain blocked Cuban Government accounts held indirectly through foreign banks; the amount in such accounts has not yet been ascertained.

Accounts totaling approximately \$100,000 are reported for the former Cuban Embassy in Washington and the Cuban Permanent Mission to the U.N. The special accounts mentioned above are reported to be earmarked for debt service on Republic of Cuba public works sinking fund bonds, sugar stabilization fund bonds and other bonds. Payments in many instances would be made to bondholders who are Americans. In addition, American firms are reported to be guarantors of approximately \$3.7 million worth of loans and other transactions in which Cuba claims an interest.

The \$19.6 million total includes approximately \$12 million in suits pending in United States courts brought by the present Government of Cuba against American firms. In most of these suits, the American defendants have counterclaims, in some cases arising out of pre-embargo business operations, but more often based on the expropriation of their assets in Cuba.

#### *D. Analysis of Blocked Assets of Cuban Corporations and other Cuban Organizations*

The census total includes \$90.6 million which is owed to or claimed by firms incorporated under the laws of Cuba. The \$90.6 million includes \$53 million of the unsecured indebtedness of the firm described in (E) below, leaving some \$38 million in other corporate assets here, principally due from American parent firms to their expropriated Cuban subsidiaries.

#### *E. Blocked Cuban Interests Unsecured by Property in the United States*

As was noted in the Summary of Results, a corporation organized in Florida and doing business exclusively in Cuba has reported that approximately \$70 million worth of its stocks and bonds are held by persons and organizations in Cuba.

These reports require a special explanation. The amount reported by the company is correctly reported under the Census Regulations and is properly included in the census total because the company is a United States corporation and a portion of its bonds and stocks are held by persons in Cuba. However, since the assets of the company which secure the indebtedness are in Cuba and were expropriated by the Cuban Government, there is no property subject to United States jurisdiction which could be liquidated. The stocks and bonds involved are therefore of little or no value for vesting purposes.

TABLE I.—VALUE OF U.S. ASSETS OWNED BY CUBA AND CUBAN NATIONALS, CLASSIFIED BY TYPE OF ASSETS AND LOCATION OF OWNER, JULY 8, 1963

	Cuba	Not Cuba	Unknown
Bullion, currency and coin.....	\$3,386	\$3,673	-----
Deposits.....	14,573,714	2,879,927	\$79,985
Notes, drafts, and debts maturing within 1 year.....	33,507,048	2,205	168,475
Other notes, drafts, and debts to national.....	2,436,624	11,157	-----
Financial securities payable in dollars.....	3,727,570	226,671	-----
Financial securities not payable in dollars.....	71,291,649	52,950	-----
Interest of associated foreign persons.....	-----	407,020	-----
Miscellaneous personal property and liens.....	128,819	6,221	-----
Real property, mortgages, and other rights.....	477,909	-----	-----
Interest in estates and trusts.....	544,577	-----	-----
Insurance policies and annuities.....	5,305,426	8,536	8,262
All other property.....	12,807,455	-----	175,250
Total.....	144,804,177	3,598,360	431,972

TABLE II.—VALUE OF U.S. ASSETS OWNED BY CUBA AND CUBAN NATIONALS CLASSIFIED BY TYPE OF ASSET AND TYPE OF OWNER

	Individual	Corporation	Partnership	Unincorporated associations	Other	Unknown
Bullion, currency, and coin.....	\$3,386	\$3,673		\$54,193		
Deposits.....	10,814,796	5,324,708	\$177,763		\$1,161,094	\$1,072
Notes, drafts, and debts maturing within 1 year.....	33,051	33,289,724	144,097		42,381	168,475
Other notes, drafts, and debts to national.....	1,363,889	798,076	274,957		10,859	
Financial securities payable in dollars.....	2,667,838	1,019,124	4,940		262,439	
Financial securities not payable in dollars.....	17,516,747	49,249,439			4,578,413	
Interest of associated foreign persons.....		407,020				
Miscellaneous personal property and liens.....		135,040				
Real property, mortgages, and other rights.....	79,176	1,054			397,679	
Interest in estates and trusts.....	542,159				2,418	
Insurance policies and annuities.....	5,314,194		8,030			
All other property.....	107,940	370,013			12,504,752	
Total.....	38,443,176	90,597,871	609,687	54,193	18,960,035	169,547

TABLE III.—VALUE OF U.S. ASSETS OWNED BY NATIONALS OF CHINA (MAINLAND),<sup>1</sup> CLASSIFIED BY TYPE OF ASSETS, DEC. 8, 1950

[In thousands of dollars]

Type of asset	Value of assets of nationals of China (mainland)
Bullion, currency, and deposits.....	61,504
Letters of credit.....	24,662
Notes, drafts, and debts maturing within 1 year.....	5,207
Other notes, drafts, and debts.....	496
Financial securities.....	24,536
Interests of associated foreign persons <sup>2</sup> .....	2,393
Interests in estates and trusts.....	348
Real and personal property <sup>3</sup> .....	6,503
All other property.....	4,369
Total.....	130,018
Total, excluding letters of credit.....	105,356

<sup>1</sup> No reports were received with respect to assets of North Koreans.<sup>2</sup> Excludes amounts due to head offices of banks by their U.S. branches. Such amounts are classified as deposits.<sup>3</sup> Includes mortgages and other rights to real property, insurance policies and annuities, and miscellaneous personal property and personal property liens.

Note: The figures are rounded and will not necessarily add to totals.

Mrs. KELLY. On page 3 you also refer to general licenses No. 94 and No. 101.

Mr. WEISL. Yes, ma'am.

Mrs. KELLY. You said that as of May 1966 these licenses are administered by the Treasury Department.

Mr. WEISL. Yes, ma'am.

Mrs. KELLY. Can you describe these licenses briefly for us?

Mr. WEISL. Yes; general license No. 94 was initially entered shortly after the termination of hostilities in World War II. This returned no moneys that were blocked to anyone or unblocked any moneys. The purpose of this license was to enable the United States and its citizens to engage in normal future trade relations with countries whose assets had previously been blocked.

In other words, under the law as it stood at that time, we could not even have sold goods to Germany or Japan or other blocked countries after the war was over, without this unblocking license.

So that to resume normal trade with continental Europe, it was necessary to issue license No. 94.

Even at that time a number of countries were still blocked, including the neutrals, because we wanted to make sure that enemy assets in these neutral countries were not improperly disposed of.

Some years later, in 1953, general license No. 101 was issued to unblock the assets that we had blocked in most of the Western and some Eastern European countries in order to return the world to normal trade and commercial conditions as they existed before the war.

There were exceptions in general license No. 101 that I mentioned, of many of the Eastern European countries, because they were not honoring the claims of our citizens as to assets in those countries.

Since 1953, as I stated, Bulgaria, Rumania, and Poland have entered into agreements with us for the usual reciprocal rights of citizens; that is, an American who has Polish assets can now get them.

So we are willing to unblock assets in these countries.

Mrs. KELLY. Are you still endeavoring to have agreements made with the other countries?

Mr. WEISL. That I cannot say, Madam Chairman. It is really in the domain of Treasury and State. I assume that efforts, of which this committee knows far better than I do, are continuing.

Mrs. KELLY. Mrs. Bolton.

Mrs. BOLTON. Thank you very much.

On page 4 of your statement, you referred to the Johnson Act which prohibits loans to countries which are in default in their obligations to the United States.

Which Eastern European countries fall into that category?

Mr. WEISL. Beyond the Soviet Union, specifically I cannot say. I could certainly supply that information.

Mrs. BOLTON. If you would, please.

Mr. WEISL. Yes, ma'am.

(The information subsequently supplied follows: )

#### EASTERN EUROPEAN COUNTRIES WITHIN THE PROHIBITIONS OF THE JOHNSON ACT

The U.S.S.R. and all the countries of Eastern Europe with the exception of Bulgaria and Albania are governments in default in the payment of their obligations to the United States. Of these countries, Yugoslavia is a member of both the International Monetary Fund and the International Bank for Reconstruction and Development, and is therefore exempt from the provisions of the Johnson Act.

Mrs. BOLTON. What is the substance of the opinions rendered by the Attorney General regarding the impact of this statute on East-West trade?

Mr. WEISL. Well, the substance is that the Attorneys General who interpreted the Johnson Act did not read it to prohibit normal commercial trade agreements with any country.

They think that the Johnson Act speaks to a country selling Government bonds or subdivision bonds, such as a municipal bond which is not unheard of, even in the Eastern European countries.

Mrs. BOLTON. How about military equipment? That does not come into it? They can sell all the guns they want?

Mr. WEISL. I would say to the extent that it is a normal commercial transaction, and there are some normal military goods sold by private companies and what have you——

Mrs. BOLTON. So they say.

Mr. WEISL. The Johnson Act itself would not prohibit it. Other acts may.

However, with this caveat, normally we would sell military equipment not to a government corporation or importer but to the government itself. There might be problems. I haven't considered it.

Mrs. BOLTON. Those are some of the things we worry about. If certain types of credit to Eastern Europe are prohibited by the Johnson Act, and if the expansion of the East-West trade depends on an increase in credit extended to Eastern Europe, then the Johnson Act would have to be amended before our trade with that area could grow, would it?

Mr. WEISL. I don't think I would really agree with that, Mrs. Bolton.

Mrs. BOLTON. That is what I wanted you to explain.

Mr. WEISL. The normal commercial transaction with an Eastern European country, because of the Socialist systems there, requires trading with a government entity. The meat importer is government-owned, the banks are government-owned. We have read the Johnson Act so as not to prohibit this kind of transaction at all.

We thought that the purpose of the Johnson Act was to prevent these governments in default to the United States from selling their general obligation bonds and securities to American citizens but not to prohibit American exporters from selling their goods even though they had to go to the central bank of these countries for financing.

Mrs. BOLTON. Thank you.

Mrs. KELLY. Mr. Hays.

Mr. HAYS. Mr. Weisl, has the Department ever prosecuted anybody for violation of the Export Control Act?

Mr. WEISL. Mr. Hays, I don't know the answer. I am in the civil division. I will be happy to refer the question to the divisions in the Department that have jurisdiction and find out the answer.

Mr. HAYS. Thank you.

We had some discussion the other day about this and I got the impression from the witness, I can't remember which one it was, that no one ever really violates the Export Control Act.

I was wondering if someone could shed some light on it, whether there were violations or whether it works so well that people understand what they are doing, and if they don't get permission they don't export.

Mr. WEISL. My impression is, from general knowledge and not from my duties in the Department, that there have been no prosecutions in this area.

I would like to check the record to be absolutely certain. I am almost positive this is true.

Mr. HAYS. That is all I have.

Mrs. KELLY. Mr. Buchanan.

Mr. BUCHANAN. Following up on Mr. Hays' question, will you furnish not only convictions but any evidence of violation?

Mr. WEISL. Yes; I might add in general we would not, of ourselves, have information on violations. In general, it would be referred to us by the agency having the administrative control over the program.

Mr. HAYS. What I had in mind was whether you had any referred to you and if so, what did you do?

Mr. WEISL. We will be happy to find out about that, Mr. Hays.

Mr. BUCHANAN. That is all I have.

Thank you, sir.

Mrs. KELLY. In other words, to your knowledge, you have not prosecuted any and you are not aware of how many have been reported for violation?

Mr. WEISL. No; I am not. I am sure that information exists. Not being in that end of the Department and not having anticipated this would be an area of inquiry, I regret to say I haven't the information at hand.

(The information furnished follows:)

#### PROSECUTIONS FOR VIOLATIONS OF THE EXPORT CONTROL ACT

There have been numerous prosecutions by United States Attorneys under the Export Control Act. However, the decisions in these cases have not been reported and thus, there is no reference to them in the annotations to Section 2025 of Title 50 of the United States Code Annotated. Between 1955 and 1967, 36 cases under the Export Control Act were filed involving some 44 defendants. Of these defendants, 29 were found guilty, three were found not guilty, and the charges against 10 were dismissed.

Typically, prosecution under the Export Control Act is instituted after the Bureau of Customs seizes goods which are being shipped out of the United States contrary to the export control regulations. Customs reports such attempted exportations directly to the appropriate United States Attorney. When the individuals or business firms involved are subject to the jurisdiction of the United States and the evidence of violation seems sufficient, prosecution is usually instituted.

In addition to the cases referred by the Bureau of Customs, the Department of Commerce, until recently, sent to the Criminal Division an average of one report a month dealing with violations of the export control regulations. Most of the offenses so reported were committed in other countries, for example, by transshipment of American-made goods from West European countries to Soviet-bloc destinations or to Cuba. Prosecution has generally declined in these matters principally because (a) most of the violations did not appear to be of a particularly serious nature; (b) the individuals involved were almost invariably citizens of another country who were unwilling to submit themselves to the jurisdiction of the United States (export control offenses are not extraditable); (c) the firms involved were foreign countries with no United States outlets; (d) most of the evidence and witnesses were overseas and unavailable for prosecutive purpose; (e) the financial value of the commodities involved was ordinarily not high; (f) the commodities often had little, if any, strategic value; and (g) meaningful administrative sanctions had been imposed by the Department of Commerce.

In February, 1968, in the interest of greater efficiency and economy, it was decided that the Department of Commerce would no longer send to the Criminal Division reports of minor offenses which involved no threat to the security or national interests of the United States, where the offenders are foreign nationals beyond the jurisdiction of the United States, and where administrative sanctions have been imposed by Commerce. However, Commerce continues to forward to the Criminal Division information regarding flagrant violations of the export control regulations; that is, those which involve threats to the integrity of the export control regulatory system or willful shipments or transshipments of large quantities of strategic materials to Communist oriented countries.

Mrs. KELLY. Mr. Roybal.

Mr. ROYBAL. Madam Chairman, I would be interested in finding out what the Johnson Act is. Will you describe it or submit the information for the record?<sup>1</sup> And then also find out what type of credits are actually prohibited by the Johnson Act.

Mr. WEISL. The opinions, copies of which have been furnished, tend to indicate that normal trade transactions, similar in form to the ones that would occur with any private commercial firm, are not prohibited by the Johnson Act.

It is actual Government obligations in the sense of Government bonds or securities that are covered by the Johnson Act. It is not a prohibited transaction where you sell goods to a government simply because the Socialist government is the buying agency and they give you some kind of notes or other evidence of the debt.

In other words, the normal credit transaction is not prohibited merely because the agency extending the credit or making the promise is the Government.

Mr. ROYBAL. Then there is nothing unusual about the prohibition you might find in the Johnson Act?

Mr. WEISL. Pardon me?

Mr. ROYBAL. There is nothing unusual about any prohibition you might find in the Johnson Act?

Mr. WEISL. I think the only prohibition, as the various Attorneys General have interpreted it, is against the sale of the bonds or securities.

Mr. ROYBAL. I had the impression that the Johnson Act was something completely different and most unusual.

Mr. WEISL. I think it is unusual to foreclose a government from selling its bonds and securities in an American market.

Mr. HAYS. Would the gentleman yield?

Mr. ROYBAL. Yes.

Mr. HAYS. When you are talking about a government which is in default on any debt to the United States or obligation to the United States, would that include such a thing as the repudiation of the bonds of the Government of Russia prior to 1917?

Mr. WEISL. Yes, indeed; I think it would, Mr. Hays.

Mr. HAYS. Even though they are owned by individuals?

Mr. WEISL. Yes; that is right. I believe so. Again, I believe there is a sufficient amount of governmental obligation to our Government by Russia to qualify under the prohibition.

Mr. HAYS. Assuming that the Government of the Soviet Union has repudiated the Czarist bonds, which I understand they have, and there are a good many of them held in this country, I am told by individuals, suppose there is no Government obligation anymore, would the Johnson Act still prohibit them from selling other bonds in this country because they have repudiated bonds which American citizens hold? I am just curious about it.

Mr. WEISL. The statute specifically says, "obligations to the United States." I think, therefore, it would relate only to obligations to our Government, not to our citizens.

Mr. HAYS. Thank you.

Mr. ROYBAL. I have no more questions.

Mrs. KELLY. I would like to have one issue cleared up if possible.

<sup>1</sup> See p. 199.

How do you prosecute a foreign subsidiary of an American corporation which may have violated our laws on East-West trade; and where can you prosecute them?

This has been a question that we have had raised previously before this committee. We have not been able to get an answer.

Mr. WEISL. Madam Chairman, if you would allow me in my perhaps overly careful lawyer-like way to do a research job on this question which I first heard of a few moments before my testimony began, I would like to try to answer that.

I cannot offhand give you an answer that I feel I would be willing to stand on. But I would like the opportunity to give you a reasonable legal statement of that problem.

Mrs. KELLY. We will accept that for the record, and I wish you would go into it thoroughly. Name the companies involved, with whom they have been trading illegally, and so on. Also, in some cases, if it is illegal for the parent corporation to engage in some activities, why is it not illegal for the subsidiary?

Mr. WEISL. To the extent that we have the specific information about specific companies in our Department, which may not be the case, we will certainly try to do that. If not, we can certainly give you a legal statement as to what the legal problems are in such prosecutions.

Mr. HAYS. Will you yield?

Mrs. KELLY. Yes; you have been interested in this problem for a long while, I know.

Mr. HAYS. I am not a lawyer but it seems to me if you do not have any cases in your file that you have prosecuted and had a decision on that you are going to have a good bit of trouble arriving at anything that is really worth much.

I am sure your opinion is worth something but unless you have tried to prosecute subsidiaries of American companies and have decisions from the courts about whether you can and where you can or, if it is in a foreign country, whether there is any way you can prosecute in the United States or whether you can prosecute the parent company, it seems to me it is quite a legal thicket here and I don't know if there is any path through it. I will be curious to see what you come up with.

Mr. WEISL. It may well be that we have had prosecutions in areas other than in the trade area, involving subsidiaries, perhaps under tax laws.

Mr. HAYS. I will be glad to see the history.

Mrs. KELLY. I would like to pursue that further. If a subsidiary in a foreign country operates there with any of our Federal funds, our assistance, or aid under any act of ours, I would like to know the agreements involved and all related issues.

Mr. WEISL. To the extent that we have that, I will be glad to furnish it.

Mrs. KELLY. I am sure you must have it. There are several companies from New York that I could name at the moment which have subsidiaries operating in other countries and may have encountered some of these problems.

Mr. WEISL. Yes, of course. I think, in the trade field it is in order to have some connection with the American parent in the transaction at some point.

After all, goods have to originate in this country if they are to be sold to another country.

Mrs. KELLY. I think you should look at it even beyond the moral obligations of the parent company.

Mr. WEISL. I repeat, we would not have information on specific companies, unless it has come to us in the form of complaint from some other agency. We, on our own would not investigate these transactions.

Mrs. KELLY. Then, in other words, you will go back and check on all these questions and give us a report?

Mr. WEISL. Yes.

(The following statement was subsequently supplied:)

Near the close of my testimony you expressed great interest in exploring the possibilities of prosecuting a subsidiary of an American corporation that may have violated our laws relating to East-West trade, whether illegal conduct of a subsidiary abroad could be charged to the parent company in the United States and the various ramifications of those hypotheses. Unfortunately, there appears to be no record within the Department of any prosecutions in this country against subsidiaries which may have been guilty of such conduct or against their parent companies here. However, any attempted prosecutions for violations of East-West trade regulations would certainly be beset by the same difficulties outlined above concerning offenses committed in other countries. A legal solution to the hypotheses posed by you during the hearing depends so critically upon the facts of each case that I am now persuaded that a meaningful legal discussion of those issues can only be attempted in the context of an actual factual situation.

Mrs. KELLY. I understand you want to leave at the end of your testimony?

Mr. WEISL. I would like to leave, Madam Chairman, so I can get to work on these difficult questions.

Mrs. KELLY. We will be glad to excuse you. Thank you so much.

I shall now call on Mr. Myron Kratzer, Assistant General Manager for International Activities, Atomic Energy Commission.

Mr. Kratzer, your very detailed and informative statement was delivered to us yesterday. I am certain that the members of the subcommittee have had an opportunity to review it. I would suggest, therefore, in order to expedite this hearing, that you place the full statement in the record at this point and proceed to summarize it for us. I would hope that you could restrict your summary to not more than 10 minutes so that we will have an opportunity to question you.

#### STATEMENT OF MYRON B. KRATZER, ASSISTANT GENERAL MANAGER FOR INTERNATIONAL ACTIVITIES, U.S. ATOMIC ENERGY COMMISSION

Mr. KRATZER. Yes, ma'am; I certainly can.

Mrs. KELLY. I know several of us have other commitments and this makes the procedure I suggested necessary.

Mr. KRATZER. I will submit my complete statement for the record and summarize it for you at this time.

(The statement referred to follows:)

#### STATEMENT OF MYRON B. KRATZER, ASSISTANT GENERAL MANAGER FOR INTERNATIONAL ACTIVITIES, U.S. ATOMIC ENERGY COMMISSION

Madam Chairman and Members of the Committee, I am happy to have this opportunity to discuss with you the role of the Atomic Energy Commission in East-West trade and several related subjects in which you have expressed an interest.

Since I have not previously had the privilege of appearing before this Committee, I should like to identify myself and give you a brief summary of my background. I am the Assistant General Manager for International Activities of the Atomic Energy Commission. I was educated as a chemical engineer. During my military service in World War II I was assigned to the Manhattan District and was engaged in technical work at the Los Alamos Laboratory. Since joining the staff of the Atomic Energy Commission in 1951, I have held a variety of jobs in the Commission's production program, its domestic civilian applications program, and, since 1958, in its international program.

The Atomic Energy Commission's responsibilities in the field of East-West trade fall into two broad categories: that in which it exercises direct licensing authority and that in which it serves in an advisory capacity to other Government departments.

Under the Atomic Energy Act of 1954, the Commission has licensing authority over the export of a number of items of direct importance in the field of atomic energy. These include what is referred to in the Atomic Energy Act as special nuclear material; that is, the fissionable materials Uranium-233, Uranium-235, and plutonium; source material which includes natural or depleted uranium and thorium; production and utilization facilities, i.e., nuclear reactors; and byproduct material, which means reactor produced radioactive isotopes. In these areas of licensing authority the Commission, of course, plays a direct role in East-West trade regulation through the issuance of licenses or the denial of applications to export these commodities to the Soviet bloc. Under Section 57b. of the Atomic Energy Act, the Commission also has the broad authority to control any activities by U.S. parties which involve engaging "directly or indirectly in the production of any special nuclear material outside of the United States." Activities which fall within the prohibition of Section 57b. may only be undertaken either with the authorization of the Commission or under an Agreement for Cooperation entered into under the Atomic Energy Act.

The Commission also plays an active role in the regulation of East-West trade in many items which normally fall under the licensing authority of the Department of Commerce, or in some cases the Department of State. In general, the commodities in this category are those which have both atomic energy and non-atomic energy applications. Through the Advisory Committee on Export Policy and the Economic Defense Advisory Committee and their working groups, the Commission provides technical advice to the other Government agencies concerning applicability of these items to atomic energy purposes. This includes providing technical advice to the Department of State on COCOM embargo list items as well as requests for exceptions to the embargo made by COCOM countries.

In carrying out its responsibilities in both these categories, the Commission is guided, as set forth in the Atomic Energy Act, by the paramount objective of making the maximum contribution to the common defense and security. We do not favor the export to the bloc of items which can contribute to the improvement or achievement of a nuclear weapons capability. There are, however, items related to atomic energy which have no strategic implications and which can be used in legitimate peaceful applications, often of a humanitarian nature. The Commission feels that, in appropriate cases, the export of these items should be permitted.

Under the Atomic Energy Act, the two classes of articles which are most important to the undertaking of atomic energy activities—special nuclear material and nuclear reactors—can be exported from the United States only pursuant to an Agreement for Cooperation entered into under the Atomic Energy Act. Other items for which the Commission has direct licensing authority, include source material and byproduct material. Source material and byproduct material can be exported either (1) under an Agreement for Cooperation or (2) upon a finding by the Commission that the export is not inimical to the interests of the United States.

Agreements for Cooperation are entered into under a carefully prescribed procedure set forth in the Atomic Energy Act which includes in general terms approval by the President and a determination by him that the agreement will not constitute an unreasonable risk to the common defense and security, and submission to the Joint Committee on Atomic Energy, where it must lie for a 30-day period before becoming effective. Each Agreement for Cooperation in the civil uses of atomic energy contains a guarantee by the cooperating country that the material and equipment supplied under the Agreement will be used only for peaceful

purposes and will not be transferred outside of the receiving country without the agreement of the United States. In addition, as I will explain later, these agreements contain unique and important provisions which call for safeguards to insure compliance with these guarantees.

Although there is no statutory bar to entering into an Agreement for Cooperation with a Soviet bloc country, no such agreement has been entered into and it follows, therefore, that no special nuclear material or reactors can be exported directly from the United States to a Soviet bloc country. There are currently in effect 31 Agreements for Cooperation in civil uses of atomic energy with 30 countries, with the European Community for Atomic Energy (Euratom) with which we have two agreements, and with the International Atomic Energy Agency (IAEA). The IAEA is an autonomous international organization within the United Nations family, with headquarters in Vienna, Austria. It has a current membership of 98, including the United States, as well as the Soviet Union and most members of the Soviet bloc. Membership in the IAEA is open to any nation which is a member of the United Nations or any of its specialized agencies.

Under our Agreement for Cooperation with the IAEA, the United States has agreed to make available up to 5070 kilograms of U-235 as well as much smaller quantities of the other fissionable materials, plutonium and U-233. This material may be distributed by the IAEA to its members under agreements between the Agency and the receiving nations which guarantee that the material is to be used only for peaceful purposes, under Agency safeguards where appropriate. These agreements must be approved by the Agency's Board of Governors, of which the United States is a permanent member.

Under this agreement, the United States has supplied approximately 100 grams of Uranium-235 to the IAEA for basic research purposes in Rumania in 1966.

In addition, under the same agreement the United States has supplied about 2.7 kilograms of U-235 of 20% enrichment and several grams of 90% enriched material as fuel for a research reactor purchased by Yugoslavia from a United States firm. This reactor was completed and inaugurated in 1966. Approximately 764 grams of U-235 required as replacement fuel for this reactor will be provided through the IAEA this year.

With respect to exports of source material and byproduct material, since the passage of the Atomic Energy Act of 1954, the Commission has approved 83 exports of radioisotopes to seven Eastern European countries in the Soviet bloc, including the Soviet Union. In every case the material has been needed for medical research or therapy, or for other peaceful research purposes and has been of a kind and quantity to which no strategic value attaches. Similarly, the Commission has approved 12 shipments of source material in small quantities to Soviet bloc countries for peaceful non-nuclear research purposes.

Last year, the Atomic Energy Commission established two new general licenses authorizing exports of small research quantities of radioisotopes when contained in labeled organic or inorganic compounds to the Soviet bloc except East Germany. The Commission issued these general licenses as a further step to encourage the peaceful and beneficial uses of atomic energy and to facilitate export sales by simplifying administrative licensing procedures. The Commission's decision to issue these general licenses was based on the conclusion that the radioisotopes, in the quantities and forms authorized for export by the general licenses, would not reveal classified information, would have no strategic significance and their export to these Soviet-bloc countries would not be inimical to the common defense and security of the United States.

Under Section 57b. of the Atomic Energy Act, as I have already indicated, any activity which constitutes directly or indirectly engaging in the production of special nuclear material abroad may take place only under an Agreement for Cooperation or when authorized by the Commission. The Commission has issued a regulation, Part 110 of Title 10 of the Code of Federal Regulations, under which the Commission generally authorized such activities in non-Soviet bloc countries, so long as they do not involve the communication of any classified information. Thus, engaging in these activities in Soviet bloc countries still requires specific authorization by the Commission.

The Commission has authorized relatively few exceptions to the prohibition under Section 57b. involving the Soviet bloc and these have involved only activities of a general informational nature. Activities carried out by the Commission or through its sponsorship require no such authorization. Furthermore, the Commission has made a general authorization concerning participation in

unclassified meetings or conferences sponsored by educational institutions, laboratories, and scientific or technical organizations as well as activities in furtherance of exchange programs approved by the Department of State.

I should like now to say a few words about the Commission's advisory role concerning exports that are licensed by other Government agencies or exports by other nations which are members of COCOM. The Commission participates in these activities both at the stage of the development of appropriate lists of commodities which have an atomic energy application, and of the determination whether specific proposed exports of these commodities should be permitted. I have already noted that these items are usually of a dual purpose nature, having both nuclear and non-nuclear applications. The primary function of the Commission in advising on the export of these items is to evaluate from a technical standpoint their potential strategic significance in the atomic energy field.

When a proposed export of such an item appears to be for a legitimate non-nuclear application and the item would have no strategic value even if diverted to a nuclear application, the Commission interposes no objection to its export. When an item is requested for a nuclear use which in our judgment is of strategic importance, or if it would have strategic importance if diverted to a nuclear use, the Commission brings these facts to the attention of the appropriate agency and may recommend that the export be denied. Examples of some exports to the Soviet bloc that have been denied are instruments capable of precise measurements of nuclear weapons test debris, neutron generators, environmental testing equipment, nickel powder, beryllium and lithium.

No discussion of the subject of international cooperation in atomic energy matters would be complete without inclusion of the topic of safeguards, to which I have briefly referred already. I believe that this subject has received far less public attention than it deserves and am particularly pleased to have this opportunity to mention it to this Committee with its important special responsibilities in the field of foreign affairs. The Commission has attached the highest importance to safeguards since the inception of the International Cooperation Program under the 1954 Act and, recently, in recognition of its growing significance has created a new Office of Safeguards and Materials Management in which responsibilities for both domestic and international safeguards are centralized.

The objective of safeguards is to ensure against the diversion of nuclear materials and equipment from peaceful to military uses. The safeguards systems in use throughout the world minimize the risk of such diversion. These systems include on-site inspection by safeguards personnel to account for and observe the proper use of nuclear material. In our Agreements for Cooperation negotiated under the 1954 Atomic Energy Act, we have secured provisions for inspectors to enter the territory of the cooperating country with broad rights of access to all necessary places and data in order to account by actual physical inspection for the material supplied by the U.S. The unprecedented nature of these broad rights of access by nationals of one country in the territory of another for inspection purposes is not generally recognized and, in the opinion of the Commission, constitutes an important development in international relations.

Initially, the safeguards which I am describing were of a bilateral nature. They were conducted by United States personnel in the territory of the other country. The United States, however, has long believed that safeguards undertaken by international organizations are preferable to those conducted bilaterally. While there are a number of reasons for this belief, the most important is that of credibility.

When we supply atomic energy materials or equipment to another nation for peaceful purposes, we are interested not only in assuring ourselves that the commitment to peaceful uses is being observed but also in assuring the world at large of this. This objective can best be met by verification by international organizations of the broadest possible membership. We, therefore, have for some time followed the policy of transferring the implementation of safeguards to international organizations.

The international organizations with which we cooperate in this way are the International Atomic Energy Agency and Euratom. Both of these organizations have safeguards rights in their basic charters very similar to those contained in our bilateral agreements, and have developed safeguards systems reasonably comparable to our own and to each others.

When we supply material through the IAEA, as we have in several cases, the Agency's safeguards are automatically applied. In addition, even when we supply material bilaterally, we can request the Agency to apply its safeguards to that

material. Today IAEA safeguards are being applied in more than 20 countries which have received United States nuclear materials or equipment, and similar arrangements are being negotiated with several other countries. Through our Agreement for Cooperation with Euratom, the materials which we export to the Euratom member states are subject to Euratom safeguards. Our Agreement also contains provisions which enable us to assure ourselves of the adequacy of these safeguards. In the case of the IAEA, we have that same opportunity through our membership in the organization and its Board of Governors.

The development of safeguards has not been confined to the achievement of a series of theoretical rights. These rights have been extensively and, we believe, effectively implemented by the United States under its bilateral arrangements, as well as by the IAEA and by Euratom.

More than 750 safeguards inspections have been carried out by the United States bilaterally since safeguards were initiated in 1957. Euratom has conducted more than 700 inspections and the International agency is applying its system to more than 55 facilities in 30 countries. So far, no safeguard arrangements are in effect in the Soviet bloc proper, although the reactor and fuel supplied to Yugoslavia, to which I have already referred, are under IAEA safeguards. Nevertheless, for several years the Soviet Union has cooperated closely with the United States and other nations in supporting the development of an effective IAEA safeguards system, even though it has not agreed to the application of this system to any of its own activities. The Commission believes that the introduction of safeguards into countries in the Soviet bloc would be a significant step forward in achieving the worldwide acceptance of these important control measures.

The safeguards which I have described have, we believe, already made an important contribution to our national policy of avoiding further proliferation of nuclear weapons, by insuring that peaceful nuclear assistance supplied by the U.S. and other like-minded countries is not diverted to military purposes. Their contribution to this goal will be increased still further when a widely adhered to non-proliferation treaty, under which non-nuclear nations agree to place their entire peaceful nuclear programs under safeguards, comes into effect.

I should like to turn now to the matter of our exchange program with the Soviet bloc in the atomic energy field.

At the outset, I wish to emphasize that this program deals exclusively with unclassified, peaceful applications of atomic energy, and all visits and assignments by Soviet and Soviet bloc scientists to AEC facilities take place under arrangements carefully designed to insure that no compromise of classified information takes place.

An arrangement for U.S.-Soviet exchanges in the peaceful uses of atomic energy was first proposed during the visit of Soviet Premier Khrushchev in September 1959. On November 24, 1959, Chairman McCone and Professor Emelyanov signed a Memorandum on Cooperation which provided for reciprocal exchanges of visits and information in several unclassified fields of peaceful applications of nuclear energy. The McCone-Emelyanov Memorandum was an addendum to the 1960-61 overall U.S.-USSR Exchanges Agreement. Following conclusion of the Memorandum, Chairman McCone and Professor Emelyanov led groups on reciprocal tours of nuclear energy laboratories and power plants in the USSR and U.S., respectively. These were followed by more detailed exchanges of visits by scientists in the fields of high energy physics and controlled thermonuclear reactions.

A new Memorandum on Cooperation was concluded in Moscow on May 21, 1963. This Memorandum was an annex to the 1964-65 overall Agreement and provided for exchanges in eight unclassified fields of peaceful uses of atomic energy. Under its terms, we have completed a number of successful exchanges with the USSR involving delegation visits, research assignments, and the transmittal of scientific and technical documents.

Groups, usually consisting of 7 to 10 specialists, have visited scientific establishments in the U.S. and USSR on a reciprocal basis for periods on the order of two weeks. Visits have taken place in the fields of nuclear power reactors, plasma physics, low energy physics, solid state physics, radioactive waste disposal, the use of medical tracers, and radio-neurology. Over one hundred scientists from both sides have participated in these visits. In addition, exchange research assignments of several months duration have been completed by 5 Soviet scientists and 5 U.S. scientists at unclassified laboratories in the fields of high energy physics and controlled thermonuclear reactions.

Documents continue to be exchanged under the terms of the Memorandum with shipments of about 10-12 documents going both ways on approximately a monthly basis. To date, a total of more than 600 documents have been furnished to and received from the USSR. All documents sent to the USSR are unclassified and are available to U.S. users as well. Documents received from the USSR are incorporated into *Nuclear Science Abstracts* and can be made available to U.S. users on request. A large percentage of the Soviet documents are obtainable in the U.S. through this means long before they can be obtained through other sources.

Most of the projects provided for in the 1963 Memorandum have been completed. Proposals have been made to the Soviet Union for renewal of the Memorandum to provide for similar exchanges in the future. No definitive response to our proposals has been received. However, we anticipate that discussions of the renewal will take place at the same time that a new overall exchange agreement is discussed.

Another area of exchange with the USSR in which the AEC is involved is that of desalting of sea water. An Agreement on Cooperation between the USA and the USSR in the field of Desalination, Including the Use of Atomic Energy, was signed in Moscow on November 18, 1964. It was agreed to engage in "wide scientific and technical cooperation in the field of desalination" including the exchange of documents, scientific meetings to discuss problems and projects, and reciprocal visits by technical experts. Although this Agreement was renewed for another two years in 1966, when it was due to terminate, only a modest number of documents have been exchanged. No visits have taken place since the 1964 visits to desalination facilities in the U.S. and Soviet Union made in conjunction with the negotiation and signing of the Agreement.

One area of particular interest in the field of U.S.-Soviet cooperation is that of high energy physics. This field of basic research is entirely unclassified and has long been characterized by open publication and exchange of results by scientists all over the world. The basic research too of high energy physics is the electromagnetic accelerator, which speeds up particles of matter, such as protons, to energies of billions of volts.

Last year, Agreements were reached with the Soviets by both France and the European Organization for Nuclear Research (CERN), for cooperation in the use of the Serpukhov Accelerator. The AEC has offered to explore the possibility of cooperation between U.S. and Soviet teams to conduct experiments which joint groups of U.S. and Soviet scientists would propose. Under such an arrangement, the AEC would provide the equipment for the experiments and reciprocal opportunities would be offered to the Soviets when the National Accelerator Laboratory comes into operation. At this point, our proposals are under consideration by the USSR State Committee on the Utilization of Atomic Energy and we are awaiting a definitive response.

Unclassified exchanges with the Soviet Union and other nations in the Soviet bloc do not require the existence of an exchange agreement, although the Memoranda which have been in effect in the past have been important in facilitating formal exchanges on both sides. A number of other, more informal exchanges have taken place both before and during the periods covered by the Memoranda on Cooperation and are continuing to take place. Both sides have permitted participation of each others scientists at professional meetings and have permitted, in connection with these conferences, laboratory visits and other opportunities to observe work in progress.

In addition to our exchanges with the Soviet Union, we have engaged in similar activities with a number of the countries in Eastern Europe. In addition to visits and conference attendance, scientists from Soviet bloc countries have worked, or are now working, in a number of atomic energy installations and atomic energy projects at universities in areas which do not involve national security. While AEC and AEC contractors have not participated recently in extended research assignments in Eastern Europe, they do continue to visit nuclear installations in Poland, Rumania, and Czechoslovakia, as well as participate in an increasing number of conferences which are convened in those countries.

For some time Rumania has been actively considering purchase of a large nuclear power reactor in the West and Rumanian officials have inquired on this matter of both U.S. Government officials and private U.S. firms. At the present time, it appears that Rumanian interest is centered on a reactor of the heavy water, natural uranium type, which does not employ enriched uranium, and which is not manufactured by U.S. suppliers. If Rumania decides

to build this kind of reactor, it will need a source of heavy water. A U.S. firm engaged in the design of heavy water plants has made a preliminary proposal to the Rumanian Government in response to its inquiry.

Of particular note, was Chairman Seaborg's visit last October, as a guest of the Polish Government, to take part in the celebration of the hundredth anniversary of the birth of Marie Curie. The Curie Centenary Celebration was attended by distinguished nuclear scientists from almost every major country to honor the discoverer of radioactive materials. Dr. Seaborg was afforded the opportunity to present the concluding address on the "Future Perspectives for Application of Nuclear Sciences." His participation in these proceedings was extremely well received by the Polish scientific community and well publicized by the Polish press and radio.

We believe that the exchange of information and ideas in the peaceful uses of atomic energy, which we have supported, will continue and expand the desire for constructive cooperation. While the number of persons involved in these activities has been comparatively few, we believe that they have involved an influential segment of Soviet and Soviet bloc society and that through these exchanges we are demonstrating important values of a free society, under arrangements which do not endanger our national security.

Mr. KRATZER. I am very pleased to be here on behalf of the Atomic Energy Commission to describe our role in the East-West trade controls and certain other related matters in which I understand you expressed an interest.

Basically, the Commission's role in East-West trade control falls into two general categories, those areas in which we exercise a direct licensing authority under certain provisions of the Atomic Energy Act and; secondly, those areas where we act as a technical adviser in effect to other Government agencies.

That means primarily the Department of Commerce and the Department of State.

Now in either case our general approach, our general policy on the control of East-West trade is that which is dictated by the Atomic Energy Act. We don't favor the export to the Soviet Union or the Soviet bloc countries of any strategic items. By that, we mean items in the atomic energy field which can contribute either to the weapons capability, nuclear weapons capability of the countries, or to their military nuclear reactor capabilities.

On the other hand, we feel there are many areas in the atomic energy field, or atomic energy items, which are for legitimate, peaceful purposes and which under appropriate circumstances should be permitted for export to the Soviet bloc.

Turning first of all to these areas of direct licensing authority, the items which the Commission controls under the Atomic Energy Act are essentially the following; fissionable material, in other words, actual nuclear fuel, the same fuel used in either nuclear reactors or nuclear weapons, enriched uranium, plutonium and the like; what the Atomic Energy Act describes as source materials.

These are the raw materials, natural uranium and thorium.

Finally, in the materials field, what the Atomic Energy Act describes as byproduct material. These are the radioisotopes which are produced in nuclear reactors but which are not in themselves nuclear fuel or capable of creating nuclear explosives.

Then we control the very important item of nuclear reactors themselves and finally there is a catch-all provision in the Atomic Energy Act which gives us authority to control any activities abroad by U.S. citizens or persons subject to U.S. jurisdiction which constitute either

directly or indirectly engaging in the production of fissionable material abroad.

The Atomic Energy Act gives us two mechanisms by which we can control all these items. It does not prohibit trade in these items or these activities insofar as the Soviet bloc is concerned, but it does give us the mechanism and responsibility for controlling them.

One of these mechanisms is what the Atomic Energy Act calls an agreement for cooperation.

Now that is a statutory type of agreement entered into with the approval of the President and submitted to the Joint Committee on Atomic Energy for review over a 30-day period before becoming effective and I can assure you from firsthand experience that they review these carefully.

With one of these agreements in effect we are authorized to either directly provide, if it is a government product, or to license the export of these various categories of items to the other party to the agreement.

Now we don't have any agreement for cooperation with any of the Soviet bloc countries. It is not prohibited by the Act but for, I think, obvious reasons, we have not entered into any such agreement. So we cannot directly export or directly license the export under an agreement for cooperation of any of the items that I have mentioned.

However, certain of these items, in fact, all but fissionable material and reactors, can be exported not only to the Soviet bloc but to other countries in the absence of an agreement upon a determination by the Commission that that export would not be inimical to our interests.

These are the items which are, according to the framers of the Act, less sensitive than fissionable material and nuclear reactors.

In one of these categories, in the category of byproduct material, in other words, radioisotopes, there have over the years been quite a few exports permitted to the Soviet Union and to various Soviet bloc countries.

These are very small amounts of material. In almost every case they are being used for some basic research, often for medical purposes.

The Commission is quite satisfied that they have no strategic significance whatsoever.

We also have an agreement for cooperation with the International Atomic Energy Agency of which essentially all of the members of the United Nations are also members, including the Soviet bloc countries.

Under this agreement we can export fissionable material and reactors to the International Atomic Energy Agency for use in the Soviet bloc countries under the carefully prescribed conditions of the statute of the Atomic Energy International Agency, in other words, conditions which assure that that equipment or material will be used only for peaceful purposes.

Mrs. KELLY. Is that consistent with the Atomic Energy Act?

Mr. KRATZER. No, the Atomic Energy Act does provide for the export of materials to any individual nation or group of nations with which we have an agreement for cooperation. We have such an agreement with the International Atomic Energy Agency. We are a member of the agency and the statute of the agency to which we are a party was, of course, ratified by the Senate. There is specific legislation which authorizes the Commission to distribute to the International Atomic Energy Agency, I believe the figure is over 5,000 kilograms of enriched

uranium pursuant to an agreement for cooperation which, as I say, we do have.

It was well understood in that specific congressional authorization for the distribution of material to the Atomic Energy Agency that upon distribution to the agency it could then be used in any member state of the agency in accordance with the terms of the agency statute.

You see, the agency, itself, although it does operate a small laboratory for its own purposes, is essentially a broker for materials.

It was set up for that specific purpose among others, to be a supplier of these materials to all of its members. We do not have the power as a member of the agency to attach any strings to the material we supply to it other than the condition that it must be used in accordance with the statute of the agency. That means that it must be used only for peaceful purposes and that it must be subject to safeguards, which is one of the subjects I want to touch on.

Mrs. KELLY. I am sorry that I interrupted you but that was one of the key problems and questions that we have.

I am sorry I had to disrupt your trend of thinking but I want at this point to see if I understand it correctly, that the Soviet bloc countries cannot obtain through IAEA the type of information that we would not normally furnish them on a bilateral basis. Is that correct?

Mr. KRATZER. Well, information is a somewhat different category.

Our agreements do not speak in detail although they do have certain information provisions—they do not speak in detail to the supply of information.

Basically, they are agreements which provide a mechanism for the supply of materials and for the supply of equipment. Now in the information field, of course, much of the information in the field of peaceful uses of atomic energy is unclassified. It is published and the reports are widely available and flow to all countries through various channels, but in terms of specific information exchange arrangements we, as I again will cover in another part of this, have had in the past a few information exchange arrangements with the Soviet Union.

They are entirely reciprocal as well as entirely unclassified. In other words, we receive something in return for the information provided. But we don't have with any of the Soviet bloc countries the same kind of comprehensive information exchanges that we have with the Western European countries, Japan and many others, and I do not anticipate that we will.

Mrs. KELLY. I am sorry that I interrupted you. You may proceed.

Mr. KRATZER. This agreement for cooperation with the IAEA is then a mechanism, in theory, by which some quantities of fissionable material could be provided to a Soviet bloc country and we have provided under that mechanism a very small amount, much less than a kilogram, of enriched uranium,  $U^{235}$ , to Rumania for certain peaceful research projects in the past but no substantial amounts of enriched uranium or other fissionable material has been provided to any Soviet bloc country.

We have provided fuel and a reactor to Yugoslavia which of course, although a Communist country, is not classified as a Soviet bloc country by most statutes and that material has been provided to them through the IAEA as well.

Now, in the areas which the Commission does not directly control, in the areas in which we serve as a technical adviser to the Commerce Department and the State Department, while the mechanism is different—they rely on their own licensing authority—our approach is very much the same.

Generally speaking, this area covers items which are of a dual purpose nature, in other words, items which have both an atomic energy use and a nonatomic energy use and, therefore, fall in the licensing jurisdiction of those agencies.

If the item in question is of a strategic nature, in other words, if it has an importance, in terms of the amounts involved and the type involved, if it has an important strategic atomic energy use, then the Commission will normally recommend against its export.

But if it is not for an atomic energy end use or if it is for a peaceful atomic energy end use, then we often indicate we have no objection to the export of the item.

We have objected to the export of many items to the Soviet bloc through these means, for example.

Special instruments for the measurement of weapons test debris, special materials such as beryllium, lithium which has strategic atomic energy end use.

Now I would like to turn to a subject on which I understand you did express an interest and which is very closely related to the East-West trade control and that's the subject of safeguards.

This is a subject about which we, the Commission, it is fair to say, are rather pleased and excited.

We feel that the safeguards policies and programs which have been developed over the years are something which deserve possibly more public understanding and recognition than they have received.

Basically, what we mean by safeguards are measures which are designed to detect the diversion, and thus prevent the diversion of materials which are made available for peaceful atomic energy purposes.

This involves as its key aspect the actual onsite inspection in the territory of other countries by inspectors, whether they come from the United States or whether they come from the International Atomic Energy Agency or from the European Atomic Energy Community.

Now this is an unprecedented development as we see it, in the field of international relations in general. In other words, the arrangements whereby these people with very broad rights of access are able to go into the territory of another country and seek out any violation of the commitments that have been made for the peaceful use of these materials.

We have a bilateral safeguard program, but over the years for a number of reasons we have made efforts which are now largely completed to transfer these bilateral safeguards, that is, safeguards which we ourselves undertake to international organizations such as the IAEA and Euratom.

This process, as I indicated, is essentially completed.

At the present time, of course, the safeguards take on a very special importance in connection with the proposed nonproliferation treaty because one of the key provisions of that treaty is that every nonnuclear signatory must place all its peaceful nuclear programs under the safeguards of the Atomic Energy Agency or of an agency such as

the European Atomic Energy Community, Euratom, whose safeguards would be verified by that agency.

So we are looking forward to a number of important new developments in the safeguards field.

Now there is one final subject in which I understand you expressed an interest and that is the subject of our technical exchange arrangements with the Soviet Union and other Soviet bloc countries. I think this will help answer the question which you raised in the field of information.

We have had technical exchange arrangements with the Soviet Union. The first one went into effect in 1959 and was replaced by another one which continued in effect until I believe the end of 1965.

Now these are not statutory agreements for cooperation of the type I described earlier. These are essentially arrangements for the transfer, for the exchange on a reciprocal basis of unclassified information in the field of peaceful uses of atomic energy.

This has not involved the exchange of atomic energy materials or atomic energy equipment.

The original exchange arrangement that went into effect in 1959 was implemented rather successfully. We had a number of exchanges of scientific delegations, again, all in unclassified fields.

The second agreement also was implemented quite successfully. It had the same elements, in other words, the exchange of scientific delegations, as the first, and the additional element of the exchange of scientists on a long- or medium-term basis.

We had five American scientists who worked in Soviet laboratories for periods of several months and an equal number of Soviet scientists working in U.S. laboratories.

Now these two exchange arrangements were actually an addendum to the overall State Department exchange arrangement with the Soviet Union on scientific and educational and cultural matters.

These agreements both ran their term and proposals have been made by the United States for their renewal and we still are awaiting definitive word on whether or not they will be renewed.

We have had similar exchanges with the Soviet bloc countries other than the Soviet Union, itself. Although we have had no formal exchange arrangements, these have been carried out on an informal basis.

We have had visits of the Soviet bloc nationals to conferences and the like here in the United States, as well as the assignment of a fair number of those scientists to some of our facilities, and to some of our universities.

Mrs. BOLTON. Is that entirely on the atomic end of it?

Mr. KRATZER. Yes, I am addressing my remarks to the atomic energy side. Again, I want to make it clear throughout this discussion that all this information we exchange with the Soviet Union is unclassified and it has to do only with the peaceful uses of atomic energy.

There is no military information and, of course, there can't be, and there is not any classified information. Some of the Soviet bloc countries are becoming increasingly interested in nuclear power. Up until this time, with one exception, their activities have been largely in the field of research making use of atomic energy, but they are becoming increasingly interested in the possible use of nuclear power and one of

these countries, Rumania, has been interested in buying a nuclear power reactor in the West.

They have had contacts with the U.S. Government and they have had contacts with the other Western governments such as Canada who have the capability of supplying this sort of equipment.

At the present time, they seem to be interested primarily in a Canadian-type reactor. This reactor uses heavy water and natural uranium and as a potential supplier of heavy water or heavy water production equipment, the Rumanians have been in contact with U.S. firms in that business and have received a preliminary proposal dealing with the production of heavy water.

Other countries, as I say, are interested in nuclear power, other Soviet bloc countries, but have made no inquiries of us as of this time.

Now that concludes my summary, Madam Chairman. I will be happy to try to answer any of your questions.

Mrs. KELLY. Thank you so much. Before I lose the trend, you mentioned the heavy water plant requested by the Rumanians.

I would like to know: Does heavy water have any potential military use?

Mr. KRATZER. Yes, it does.

Mrs. KELLY. Could it produce power for a tank factory and so forth?

Mr. KRATZER. Well, the components of heavy water do have a direct military application. But as an ingredient, to be technical about it, as a moderator in the nuclear power reactor, it has no direct military application.

It is the same as any other component of a machine or unit whose purpose is to generate power for a country's electrical requirements.

Mrs. KELLY. But it does have potential military utility?

Mr. KRATZER. In the sense that that electrical power goes into a grid which feeds all of the country's power requirements and some of those could be military in nature, I think that is correct.

The nature of electric power, you might say is fungible. It goes into a grid or network and all the customers, whether homes, farms or factories, use a little bit of all of the power.

Mrs. KELLY. Is our Government considering favorable action on the Rumanian's request?

Mr. KRATZER. I would say we would be guided here by the general policy on the export of this type, in other words, of power generation equipment, to the Soviet bloc.

If it is agreeable to export power-generating equipment of a conventional type, then I don't believe there would be any basis to—

Mrs. KELLY. Well, is it?

Mr. KRATZER. I believe it is, yes, ma'am. This is something that I would want to consult with the Commerce Department people on.

Mrs. KELLY. Will you check on it for me, because if something is both conventional and not permitted for export, then I want to know what you do in this field.

I will ask one more question.

Can a Communist country by virtue of its membership in IAEA obtain the type of information that we would not give them under a bilateral arrangement?

Mr. KRATZER. No, they cannot get anything but unclassified information which is generally available.

Mrs. KELLY. That first agreement of this type was entered into in 1959?

Mr. KRATZER. Yes.

Mrs. KELLY. You mentioned two. When was the other one finalized?

Mr. KRATZER. The second one, I believe, was entered into in 1963.

Mrs. KELLY. You said on page 3 of your statement, and I quote:

We do not favor the export to the Soviet bloc of items which will contribute to the improvement or achievement of nuclear weapons capability.

Is this your personal view or a clearly spelled out statutory mandate imposed on the Commission by the Congress?

Mr. KRATZER. It is certainly a direct result of the statutory mandate.

Mrs. KELLY. Where does it appear in the Atomic Energy Act?

Mr. KRATZER. I believe probably in chapter 1 or 2, I am not certain which, there is a requirement that we must pursue as a paramount objective making the maximum contribution to the common defense and security.

We infer from that that we should not approve or concur in the export of items which would fall in that category, in other words, assisting another country in nuclear weapons.

Mrs. KELLY. The bells are ringing, announcing a rollcall. I am going to submit some questions to you for written replies if we run out of time in answering this rollcall.

Now I want to call briefly on the other members of the Committee. Mrs. Bolton.

Mrs. BOLTON. I do have some questions I want to ask because I am very much interested in the Russian application of a great many of the things we have known and our lack of use of the things they know.

Do you come in contact at all with any use of atomic energy or anything of the kind in the field of hypnosis?

Mr. KRATZER. No, Madam, I am not familiar with any, but I will talk to our medical people who have visited the Soviet Union.

Mrs. BOLTON. And clairvoyance and narcotics.

Mr. KRATZER. I have no familiarity with it.

Mrs. BOLTON. I do happen to know that they do, and I have been in correspondence with them for a matter of 5 or 6 years. They have three very important headquarters for study of these things. They use hypnosis constantly and there can be a very great danger.

I hope you will speak to the medical groups that you contact. I think it is an extremely serious thing.

Thank you, Madam Chairman.

Mrs. KELLY. Mr. Buchanan.

Mr. BUCHANAN. Thank you. I am very much interested, Madam Chairman, in this matter of safeguards and inspection, because it has been my understanding that IAEA was not particularly strong in the inspection department.

I am glad to hear that you are happy with the matter of safeguards. I hope, Madam Chairman, you will spell out a question along this line.

Mrs. KELLY. I fully intend to do so.

Do you have any further questions?

Mr. BUCHANAN. No.

Mrs. KELLY. On page 3, you point out that special nuclear materials for reactors can be exported only pursuant to an agreement for cooperation with the importing countries.

On page 4, you point out that we have such agreements with some 30 countries.

Now these agreements provide that the material and equipment involved will be used only for peaceful purposes and will not be transferred outside the receiving country.

How do you monitor compliance with these agreements?

Mr. KRATZER. This, of course, is the purpose of the safeguards. I have touched on that but I would like to go into a little bit more detail.

As I indicated, we began this program of safeguards essentially on a bilateral basis simply because there was no alternative.

The International Atomic Energy Agency had not been established at the time our program began. In order to move ahead we set up a bilateral safeguards program.

The first step in this, of course, required the negotiations of these very broad, I think it is fair to call them sweeping, rights of access, in order to carry out the inspections.

But we have gone far beyond the phase of merely negotiating, although I think that in itself is significant. We have carried out some 700 inspections abroad.

Mrs. KELLY. You have carried them out?

Mr. KRATZER. Yes, we have. These have been done by employees of the Atomic Energy Commission who are, of course, skilled in this work, who have backgrounds in the various fields necessary in both the scientific and accounting backgrounds. Both of these techniques are employed. And we have continued that program up to the present time.

But over the last 4 to 5 years in particular, we have been transferring these safeguard arrangements to implementation by the International Agency in Vienna and to the Euratom community, the European atomic energy community, in the case of the Western European countries.

Both of these organizations, again, are in business. They have inspectors who perform these inspections and actually physically verify by seeing, by accounting, by measuring the material, that it is where it is supposed to be.

Now there is a lot to be done. In other words, the rate of atomic energy growth around the world is very large and the staffs of these organizations will have to be increased very substantially to meet the new load.

But we feel that both of them, both Euratom and IAEA, currently have capabilities which are entirely in keeping with their present workload.

The problem you may have heard of and it certainly is a real one, is the need to grow as atomic energy applications abroad grow as they are doing right here in the United States.

Mrs. KELLY. Did the 700 inspections indicate that all of the agreements involved were being complied with?

Mr. KRATZER. We have turned up no evidence of any violations of our arrangements.

Mrs. KELLY. If you did turn up any evidence, how could you enforce an agreement with a sovereign country?

Mr. KRATZER. The most direct and straightforward means of enforcement, and I can assure you it is a very powerful one, would be to discontinue any future supplies of material. This is material that

has to be replaced. Whether it is fuel for research reactors or fuel for a power reactor, it has to be replaced.

Of course, we would not replace material for a country that is in violation. If it were a mistake or something like that and it was corrected—

Mrs. KELLY. You have found at no time either a mistake—

Mr. KRATZER. There can be discrepancies in records and these occur occasionally. They are explored and in every case they have been satisfactorily resolved. This happens to our own bankbooks, as we all know.

Mrs. KELLY. Do you feel that IAEA is performing good inspections and doing as well in this field as Euratom?

Mr. KRATZER. Yes, ma'am, I do. I think their current capabilities are entirely satisfactory. As I say, we have a very close eye on the steps they are taking, looking ahead to the much bigger workload that they will have in the future.

Mrs. KELLY. You mentioned earlier that Yugoslavia has obtained from us some material for a research reactor. Do we have an "Agreement for Cooperation" with Yugoslavia?

Mr. KRATZER. No, Yugoslavia obtained this material by this alternate route which I indicated through the IAEA.

Mrs. KELLY. Through the alternate route?

Mr. KRATZER. In other words, it is under an agreement for cooperation, as the law provides, with the International Atomic Energy Agency.

Mrs. KELLY. Would you have given it to her directly if they had not?

Mr. KRATZER. That is a hypothetical question. At that time and possibly still, it was certainly their preference not to enter into an agreement with the United States.

Mrs. KELLY. Would you think she would seek to enter into an agreement with the United States at this time?

Mr. KRATZER. Well, I should really ask my State Department colleagues on that, but I will hazard a guess that I would doubt it.

Mrs. KELLY. In this roundabout way, then, Yugoslavia obtained something that we would not have given her directly without an agreement. Is that correct?

Mr. KRATZER. We couldn't have given it directly without an agreement.

Mrs. KELLY. Is there any other country in this category?

Mr. KRATZER. There are a number of countries who have preferred—

Mrs. KELLY. I did not ask what they preferred; I asked whether other countries have obtained something through this route that we would not furnish them directly?

Mr. KRATZER. There are about five countries who have obtained materials through IAEA. It includes Mexico, Yugoslavia, Finland, the Congo and Pakistan. In one of those cases, namely, Pakistan, we had an agreement, but it preferred to switch to supply through the IAEA.

You see, the IAEA was set up to be a broker of materials. We in effect have encouraged countries to use it. So there is no backdoor approach here. This was our own policy, our own action, in making

available to the IAEA this material, this 5,000 kilograms, which has encouraged them to do this, as we intended.

Mrs. KELLY. Mr. Kratzer, I do want to thank you. We do have to leave to answer the rollcall. We have more questions that we will submit to you. I hope you will send us the answers. We appreciate your appearance here.

Mr. KRATZER. Madam Chairman, I would be very pleased to supply the information requested to the subcommittee for the record.

(The questions and answers referred to follow:)

QUESTIONS DIRECTED TO THE STATEMENT OF MYRON KRATZER, ASSISTANT GENERAL MANAGER FOR INTERNATIONAL ACTIVITIES, ATOMIC ENERGY COMMISSION

1. On page 5, you mention that AEC has approved 83 exports of radioisotopes to seven Eastern European countries, including the Soviet Union. You went on to say that in each case, the material "has been of a kind and quantity to which no strategic value attaches." You also referred to 12 shipments of source material to Soviet bloc countries for peaceful research purposes.

(a) How do you determine that these materials have no strategic value?

(b) What is your definition of "strategic value"? Does it involve only military uses? Or does it take into consideration the use of atomic energy for economic and other purposes? For example, peaceful research relating to the use of atomic energy to generate power may produce results which can have different applications, isn't that correct?

Answer

Our determination as to what constitutes strategic value is based upon a technical evaluation which takes into consideration (1) the material or equipment in question, (2) the quantity, (3) the form or type, and (4) whether it is used in our military-oriented atomic energy programs, particularly our weapons development, production, and testing programs, or whether it could be used in such programs notwithstanding the fact that we might not use it for these purposes. Thus, we ascertain that materials consigned to the bloc are to be used in bloc countries for valid civilian activities such as scientific research or medical or humanitarian purposes. Based upon the kinds, types, and quantities involved in the export of 83 shipments of radioisotopes and 12 shipments of source material to the Soviet bloc and their non-applicability in military atomic energy programs, we concluded that these materials had no strategic value and their export to the bloc would not be inimical to the interests of the U.S.

Our interpretation of strategic value is based primarily on our technical evaluation as to the applicability of a material or equipment to military nuclear energy uses. This is not to say, however, that we do not consider other aspects, such as economics, in our appraisal of a proposed export to the bloc. Generally, such considerations are of marginal significance, and have little impact upon our decisions regarding bloc exports. If these other considerations were of consequence in a particular case, we would be guided by the views of other agencies, such as the Departments of Commerce and State, as to U.S. policy in regard to the export of items of economic significance, since this is not an area in which the Commission has special expertise.

2. On page 7, you mention that your Commission has authorized a few exceptions to the prohibition under Section 57b. of the Atomic Energy Act—the Section which deals with the production of special nuclear material abroad.

(a) What were these exceptions? Which countries did they affect?

(b) Couldn't the information produced by these activities be used by the Soviet Union—or one of the other Eastern European countries—for military or related purposes?

Answer

The relatively few exceptions to the prohibition under Section 57b. which the Commission has authorized have been made to protect U.S. citizens in conducting unclassified discussions with Soviet bloc nationals or to permit participation in unclassified conferences at which there was Soviet bloc participation.

Our records indicate the following:

a. In 1958, an Atomic International employee was authorized to discuss nuclear superheat technology with Soviet scientists at Obninsk. The Soviets were

then designing a large nuclear reactor which would superheat steam and were conducting experiments at Obninsk on their "First Nuclear Power Station" in conjunction with the larger reactor. The visit did not take place.

b. In 1960 and 1961, four conferences, all unclassified and all in the U.S. were covered by Commission determinations to permit Soviet attendance.

c. In 1967, two Power Reactor Development Corporation employees were authorized to discuss a fuel element failure of the Fermi fast breeder reactor with Soviet technologists who have had considerable experience in this field.

These authorized activities were, of course, in unclassified areas and covered topics which are openly published. In each case we were of the opinion that at least as much advantage would be derived by the U.S. as would be obtained by the Soviets and that the information was not useful for military or related purposes. In this regard, the Commission in October 1962, in order to facilitate the interchange of unclassified scientific information, published a general authorization covering activities which:

"May constitute directly or indirectly engaging in the production of any special nuclear material in any foreign country and is limited to participation in (i) meetings or conferences sponsored by educational institutions, laboratories, scientific or technical organizations; (ii) international conferences held under the auspices of a nation or group of nations; or (iii) exchange programs approved by the Department of State; and

"Does not involve the communication of Restricted Data or other classified defense information; and

"Is not in violation of other provisions of law."

3. On pages 9 and 10, you describe the safeguards and inspections systems used by your Commission, the IAEA and EURATOM.

(a) Isn't it a fact that some members of these international organizations—by virtue of participating in inspection teams—could obtain information which would not otherwise be available to them?

*Answer*

The agreement by which a country accepts IAEA safeguards on its facilities provides that country an opportunity to accept or reject inspectors from particular countries. In addition, an inspector is entitled to access to information only to the extent necessary to account for materials and to verify use of materials subject to safeguards. This is dealt with more extensively in the answer to the next question.

(b) Hasn't this been one of the big considerations which has stalled progress on the nuclear non-proliferation treaty? Weren't some of the EURATOM countries afraid that IAEA inspections could provide some non-EEC countries with technical data which could have competitive, even strategic, implications?

*Answer*

This consideration has been among those which have been advanced by several countries as reasons for not favoring the proposed non-proliferation treaty. However, we believe the concerns expressed on this point have been overcome by U.S. explanations of the facts. In discussing their expression of concern on the point with other countries we have indicated that we are convinced there is no basis for concern that the inspection activities contemplated by the non-proliferation treaty will give rise to loss of unique industrial technology. This conclusion is based on several considerations.

First, the technical nature of inspection activities is such that inspectors normally do not gain access to information which is not already disclosed by the usual requirements of engaging in nuclear export. It should be recalled that the access of inspectors is not unlimited, but is confined, in the words of the Statute of the IAEA (Article XII) "as necessary to account for source and special fissionable materials supplied and fissionable products."

The experience of the United States in placing under IAEA safeguards certain of its own facilities, which include those of a research nature as well as those of immediate commercial importance, has confirmed that inspections do not in any way hamper the activities concerned, nor do they lead to the disclosure of information of commercial importance.

Second, there are strong assurances built into the IAEA Statute and its safeguards system against industrial espionage or any other improper activities on the part of inspectors. The disclosure of inspection information is specifically prohibited by the IAEA system.

Safeguards do not constitute a means of actually affecting the operations being undertaken at a nuclear facility; they are directed toward detecting any unauthorized use or diversion of nuclear material. Inspectors are prohibited by the provisions of the IAEA system from interfering in the construction or operation of any inspected facility.

Finally, under the IAEA safeguards system, each inspected country has the right to reject inspectors whom it does not wish to admit. Moreover, the system requires the Director General of the Agency to consult informally with an inspected country in connection with the designation of inspectors as well as all other aspects of the implementation of the system, so that the refusal of an inspector need not be accomplished by formal rejection of a designation. It should also be noted that the broad membership of the IAEA itself insures that most inspectors will be drawn from countries not in a position to engage in competitive nuclear export activities.

(c) What is the U.S. voting strength on the Board of Directors of IAEA? Do we have 1 vote—or veto power?

*Answer*

The U.S. and every other member of the Board of Governors of the IAEA has one vote. Decisions on the amount of the Agency's budget require a two-thirds majority of those present and voting and all other decisions are made by a majority of those present and voting. Two-thirds of all members of the Board constituted a quorum. There is no veto power.

The Board is composed of 25 member states, some of which are designated and others elected under several categories. The U.S. membership is assured under the category consisting of the five members most advanced in the technology of atomic energy. The established pattern for the composition of the Board results in the general following geographic distribution of the members: North America—2, Latin America—4, Western Europe—6, Eastern Europe—3, Africa and the Middle East—4, South Asia—2, Southeast Asia and the Pacific—2, and the Far East—2.

From the IAEA's inception in 1957, the U.S. has received general support in the Board of Governors on all principal issues.

4. On page 5, you referred to the materials which have been supplied to Rumania. On page 11, you said—and I quote: "So far, no safeguard arrangements are in effect in the Soviet bloc proper . . ."

(a) Do you mean to say that we have furnished nuclear materials to Rumania without any safeguards whatever?

*Answer*

Approximately 100 grams of special nuclear material (Uranium-235) was provided by the U.S. to Rumania via the International Atomic Energy Agency. The United States furnished the material at the request of the Agency to Rumania pursuant to the terms and conditions of the International Atomic Energy Agency Statute which brings the material within the ambit of the Agency's Safeguards System. In any safeguards system, the intensity of the safeguards is dependent upon the amount and kind of material in question, and its risk of diversion, and de minimus quantities may be specified for which no active safeguards are necessary. Thus, the Safeguards System of the Agency provides that safeguards are not required on up to one kilogram of special nuclear material in each country. Therefore, on-site safeguards inspections are not required over the small amount of material we have supplied to Rumania. This is the point I was making on Page 11 that no safeguards arrangements are in effect in the Soviet bloc. Notwithstanding the fact that this material is not subject to on-site safeguard inspections, the material was transferred to Rumania under the auspices of the IAEA for a particular peaceful nuclear purpose and the Government of Rumania has guaranteed that the material will only be used for such a purpose. In addition, once the one kilogram exemption has been reached, all further material supplied to Rumania through the IAEA would be subject to safeguards.

5. On pages 12 and 15, you describe the various exchange arrangements with the Soviet Union.

(a) What does the U.S. get out of these arrangements?

(b) What is the level of Soviet nuclear technology? Is it comparable to ours—or even more highly developed—in some areas?

*Answer*

I think all of us would agree that a program of this type cannot be evaluated on a statistical basis alone; however, it would be helpful to begin by covering

this aspect. Under past Memoranda on Cooperation, we exchanged persons and documents on a reciprocal basis and came out almost numerically even. For example, in the field of long-term exchanges, both sides received three high energy physicists and two controlled thermonuclear research specialists from the other country and the man-months of the total visits were almost identical for both sides. All the delegation exchanges have been completed on a reciprocal basis, except that our radioneurology team has visited the Soviet Union while they have not yet sent one in return. When the program resumes, we presume that they will wish to send a team to the U.S. in this field and we are prepared to accept this as an outstanding obligation.

We have received 628 documents from the USSR pursuant to the Memorandum on Cooperation and forwarded to them 623—again almost an exact balance numerically.

Exchanges also take place outside of the exchange arrangement between the AEC and the State Committee. These mostly consist of attendance at conferences and visits to laboratories in conjunction with those conferences. There also are visits to AEC facilities resulting from exchanges of other programs. In these cases, we try to insure that invitations to conferences, or for visits, are limited to Soviet scientists of proven competence in their field who can make a contribution through presentation of papers or other active participation. In addition to the reciprocity we like to see built into each visit of a Soviet to the U.S., we encourage U.S. attendance at Soviet conferences and U.S. scientists to participate in other exchange programs or to accept invitations to the Soviet Union in their individual capacity. Since 1962, there have been somewhat more U.S. visitors (325) to the Soviet Union than Soviet visitors (274) to the U.S. in whom the AEC has a direct interest.

More important than numerical balance in evaluating these exchanges is that we obtain at least as much information as the Soviets which is not otherwise available from other sources. The information we gain under the exchange is valuable to us in several ways. It is valuable programmatic information. It is always important for us to know from the standpoint of program evaluation of the atomic energy field in general, and of our own program in particular, which activities and programs are being pursued by other leading countries in the atomic energy field.

In addition, we gain specific technical information that has not been previously acquired in the U.S. program or from other countries. While I would not want to suggest that we have learned of any scientific breakthroughs in our exchange with the Soviet Union, since these are few and far between in any program, there is a steady accumulation of scientific data obtained through our contacts with the Soviet Union, as with other countries, which improve the ability of our scientists to pursue their own programs.

I should like to refer particularly to the fields of high energy physics and controlled thermonuclear reactions which the Soviets are pursuing vigorously and possibly have a greater investment in equipment and scientific skills than we do. In the last year or two the Soviets have come up with a number of advances which have been extremely useful to the U.S. program.

In every field in which we have had exchanges, we believe that the cross-fertilization of ideas has been of real value to us. We are confident that in an overall sense the U.S. leads the Soviet Union as well as any other nation in the peaceful uses of nuclear energy. However, in many specific parts of this broad field, the Soviet Union develops some information which we do not have, and may even be in the lead in a particular area. In these circumstances, both sides can and do benefit from an exchange.

We also believe, as our testimony stated, that it has been of value to carry out these unclassified exchanges from the point of view of demonstrating to an important segment of Soviet bloc society the values of a free society.

6. Is conventional power generating equipment exportable to the Soviet bloc?

*Answer*

Export of such equipment is within the control of the Department of Commerce, which advises that a general license covers the export of conventional power generating equipment to Poland and Rumania. Export to other countries of the Soviet bloc with which we might consider such commercial relations (excluding Communist China, North Korea, North Vietnam, and Cuba) would require a license from the Department of Commerce. While there is no precedent for these items, it is generally believed that a license would be issued unless the export contained advanced technology of significant importance to the receiving coun-

try's economic capability. Similarly, this equipment is not on the Battle Act (COCOM List) and can, therefore, be exported by other Western nations. We would not permit the export of nuclear power equipment or nuclear fuel for specific use in military installations or factories. However, where the equipment is used for the generation of electric power in central generating stations, where it would represent only a fraction of the total power produced, the contribution is so indirect and remote as to not be considered as of strategic importance. The export of nuclear power reactors and the fuel has always been recognized as a peaceful use of atomic energy under the strict criteria of the Atomic Energy Act.

Mrs. KELLY. This brings to a close the first part of our hearings on East-West trade. We must suspend at this point because the Committee on Foreign Affairs is considering the foreign aid program.

When we resume these hearings, I intend to ask for testimony of private witnesses representing firms dealing abroad and other interested parties. Until then the subcommittee will adjourn.

(Whereupon, at 3:05 p.m., the subcommittee adjourned, subject to call of the Chair.)



## APPENDIX

### APPENDIX I

#### NEW DIRECTIONS IN RUMANIA'S FOREIGN POLICY—TEXT OF SPEECH BY HON. PAUL FINDLEY, AUGUST 2, 1967

Beginning with the administration of President Eisenhower a U.S. policy of promoting gradual and evolutionary independence and internal freedoms in the Eastern European countries was inaugurated. Certainly many of the promising developments to dismantle the Iron Curtain were caused by internal stresses and strains in not only these countries, but the Soviet Union as well. But to diminish the role of our policy in promoting these changes would be unfair and inaccurate.

Secretary of State Dulles as the foreign policy adviser to presidential nominee Dwight Eisenhower in 1952 expounded his philosophy on what direction our policy toward the Eastern European countries should take. One of the specific recommendations he made was that we skillfully and diplomatically use the "carrot and stick" approach to reward and punish the Eastern European countries. Mr. Dulles argued that promising steps of external independence and internal liberalization should be rewarded by the United States in the form of political and economic benefits. Likewise when a retrogressive trend appeared in any country, he said, we should withdraw these economic and political benefits.

Other than Yugoslavia, Poland has thus far received most of the political and economic benefits the United States could extend.

In the last few years, however, the promising signs of external autonomy and internal liberalization which we witnessed in 1957 in Poland have largely vanished. The situation in Poland is no longer dynamic but static. Once the most independent and open of the East European countries, Poland has now abandoned much of the early gains. One of the most disappointing developments has been Poland's economic, political, and military assistance to North Vietnam and the National Liberation Front.

Poland is now shipping weapons and other military hardware to North Vietnam and may well be shipping Chinese arms to Vietnam.

Contrast Poland's actions with those of Rumania. Although internally Rumania is still something of a police state there are promising developments. Rumania has reaffirmed its intention to permit the emigration of Rumanians with close relatives living in the United States.

Many hundreds of such persons, including dual nationals and their families, have come to the United States over the past 2 years. Rumania has rejected the Soviet position that there can be no coexistence of ideas. It stands still further apart from the militant Chinese position which denies the possibility of any form of positive cooperation with the Western powers.

In 1964, the Government completed the release of virtually all political prisoners, numbering more than 11,000. This dramatic action has been reinforced by a decrease in the arbitrary use of police powers, and a purge of top-level officials of the secret police.

There has been a complete transformation of Rumanian literature with more emphasis on artistic creativity and less on Socialist preachment. Jamming of foreign radio broadcasts has ceased and non-Communist newspapers are available to the public—though in limited quantities.

There has been some improvement in religious freedom in Rumania. In July 1964, 10 priests were released from jail in a general amnesty for political prisoners, although unfortunately others are still being detained. There are now 1,200 Catholic priests in Rumania engaged in parish work. Bishop Marton has been permitted to ordain new priests, but members of the Byzantine Rite Church are still persecuted.

Rumania is a little country about the size of Oregon bordering on the Soviet Union. By virtue of its geographic location alone, Rumania should be one of

Moscow's most submissive satellites. Yet since 1963, this small country has stood up to Moscow, taking advantage of the Sino-Soviet split to maneuver within the Soviet bloc. Rumania's assertion of its independence from Moscow is most dramatic in its economic and political relations with other countries and its pursuit of a policy of "active coexistence." Yet the uniqueness of the Rumanian move toward independence is due to the gradual but stubborn insistence upon national sovereignty coupled with the respect for the sovereignty of all other nation states.

#### SEEDS OF AUTONOMY

The seeds of autonomy in Rumania were sown during the Comecon conflict with Russia in 1963. Recognizing that it has the potential to be the wealthiest country of Eastern Europe with its vast, untapped store of natural resources, Rumania adopted a policy of "rapid, all-around industrialization" at the Third Congress of the Rumanian Workers Party in June 1960. At this time the party adopted a 6-year plan and a long-range development plan ending in 1975. These plans for the industrialization of Rumania led to the showdown with Moscow over Comecon in 1963. Comecon, or the Council for Mutual Economic Aid, was a plan for an integrated East European economy in response to the rumblings of the European Economic Community. The plan was to promote the political unity of the Soviet bloc by making the members economically dependent upon each other and the Soviet Union. Rumania's objection to this "International Socialist division of labor" was that she would be forever relegated to the position of colonial supplier of raw materials and foodstuff for the already more developed countries in Comecon, such as East Germany and Czechoslovakia. Such a position obviously conflicted with the Rumanian industrialization plan. As Rumanian Premier Ion Gheorghe Maurer demanded:

"Why should we send corn to Poland so that Poland can fatten its pigs to buy machinery from the West, when we can sell our own corn to the West and buy the machinery we need ourselves?"<sup>1</sup>

The Rumanians feared that dealing exclusively with oil, grain, and chemicals would lessen the growth rate of the Rumanian economy, which even at that time was the highest in the Soviet bloc outside the U.S.S.R. They felt that the Soviets had not analyzed the Rumanian natural endowments and that every communist country is entitled to develop whatever branch of the economy it desires without being bound by the nature of natural resources and without outside interference. The only division of labor acceptable to the Rumanians was one based on "respect for national independence, and sovereignty, complete equal rights, comradely mutual aid and reciprocal advantage," according to Scanteia, the official Rumanian newspaper, of March 9, 1963.<sup>2</sup> The Russians, caught in the outbreak of the dispute with China, did not dare to alienate the Rumanians and thus did not retaliate, or at least not publicly. Comecon was a flop. Khrushchev could see that "his plan had failed, and its failure was in no small part due to the stubborn opposition of the Rumanians."<sup>3</sup>

The seeds of autonomy sown in the Comecon incident began to bear fruit as the Rumanians, strengthened by their "victory" over Moscow, determined to pursue their own national interest as they themselves perceive it. By actions such as refusing to join the new network of bilateral cooperation commissions among Soviet bloc countries until 1965 and not participating in the groups set up by Comecon to assist metallurgical, ball bearing, and fertilizer industries, Rumania told Russia that she would no longer be the puppet state of Ana Pauker.

#### DECLARATIONS OF INDEPENDENCE

A study of the "Declarations of Independence" made by the Rumanian Communist Party since 1963 makes Rumania's subsequent actions with regard to foreign relations more credible. In April 1964, following the Comecon fiasco, the Central Committee came out with a resolution asserting that national independence and sovereignty, equal rights, mutual advantage, noninterference in internal affairs, and observance of territorial integrity are among the "immutable laws" of world socialism. It explicitly denies the right of any party or state to be the center of communism. The manifesto proclaims that:

<sup>1</sup> Claire Sterling, "The Business of Rumania Is Politics," *The Reporter*, Apr. 20, 1967, p. 25.

<sup>2</sup> George Gross, "Rumania: The Fruits of Autonomy," *Problems of Communism*, January/February 1966, p. 17.

<sup>3</sup> David Floyd, *Rumania: Russia's Dissident Ally*, p. 70.

"It is the exclusive right of each party to work out independently its political line, its concrete objectives and the ways and means of achieving them."

In addition, it obviously refers to the "privileged place" of Moscow in declaring that there can be no "parent" party and "son" party, and that no party can impose its line or opinion on the other parties. The declaration calls for joint formulation of a general line and "not by the no-alternative solution by some sort of super-state?"—that is, Soviet—"authority." It demanded polycentrism with self-determination, the right of each party to "independently work out its political line, its concrete objectives" coupled with rejection of Soviet authority. This manifesto amplifies the arguments put forth previously by the Rumanians against economic integration and "suprastate schemes" which "would turn sovereignty into a notion devoid of any content." Also suggested by the resolution were Rumania's later actions toward countries at odds with the Soviet Union. The role adopted by Rumania in such situations is one of mediator and friend to all nations, regardless of its sympathies or social order. The resolution thus defies Moscow's excommunication of Albania and reflects Rumania's determination to cooperate with "all Socialist countries." It suggests the inclusion in Comecon of all 14 Socialist states, including Albania. It answers the Soviet call for a "collective rebuff by Marxist-Leninist parties" to China by calling for a world Communist conference instead.<sup>4</sup> According to the Reporter:

"No Communist Party then or since has made such a clear-cut declaration of independence while continuing formally to support the Soviet Union."<sup>5</sup>

Soviet reaction came shortly thereafter in the form of a charge that Rumania is turning to the capitalist nations for trade at the expense of the Soviet bloc countries. The Rumanian reply was that they are "determined to equip their industries with the best machinery they could find, even if it meant buying it from the 'capitalist' world with 'hard' currencies."<sup>6</sup> This statement was a direct slap at the Soviet Union and the bloc countries, implying that their machinery was inferior to that of the West. As David Floyd said in his book "Rumania: Russia's Dissident Ally":

"Never had a 'satellite' commentator demolished a Soviet statement so effectively in public."<sup>7</sup>

The following year the Ninth Congress of the Rumanian Communist Party, which met from July 19–24, 1965, reiterated in a statement by the RCP Secretary General Nicolae Ceausescu Rumania's decision to maintain its political and economic independence. The RCP determined to proceed with industrialization, which Ceausescu called "the decisive factor in guaranteeing independence and national sovereignty" as opposed to the agricultural, colonial role the country would have played in Comecon.

A further assertion of national sovereignty was made in May 1966, by Ceausescu on the party's 45th anniversary and the eve of an unannounced visit by Soviet leader Leonid Brezhnev. The timing and content of the far-reaching assertion made some Western observers surmise that the Rumanians might be getting ready to quit the Warsaw Pact. The Russians had been calling for the strengthening of the pact, presumably meaning new forms of consultation that would give Moscow a greater voice in the policies of their allies. Ceausescu's comments approached total denunciation of military pacts, calling such blocs a "barrier in the path of collaboration among peoples" and an "anachronism incompatible with the independence and national sovereignty of peoples and normal relations among states." Three weeks previous Ceausescu had issued a joint statement with President Tito, of Yugoslavia, which denounced military pacts as "not corresponding to the positive development" of international relations. This denunciation of military blocs pushed Russo-Rumanian relations to what the London Times of May 3, 1966, called "a delicate point."—See appendix I.

In this call for the liquidation of military blocs, foreign bases, and withdrawal of troops from other states' territories, the Rumanians merely strengthened their previous opposition to the pact. As early as 1964 they reduced the term of military service in the pact from 24 to 16 months—the shortest term in any Warsaw Pact country—without Moscow's knowledge. Also, in the spring of 1966, the Rumanians caused a great uproar by opposing Brezhnev's proposal for a "permanent and prompt mechanism" to coordinate foreign policy. The Rumanians sub-

<sup>4</sup> *Ibid.*, p. 116.

<sup>5</sup> *Reporter*, p. 35.

<sup>6</sup> Floyd, p. 73.

<sup>7</sup> *Ibid.*, p. 105.

mitted counterproposals severely curtailing Soviet control of the pact's military coalitions and publically questioned the need for the organization itself, clearly stating that nobody would coordinate their policies. While the Rumanians have not pulled out of the pact, they are the most passive of members, refusing even to participate in military maneuvers. As of July 10, 1967, the pact had not had a commander for over 3 months, for, Ceausescu insists upon rotating the command among all seven partners. This post was always held before by Russians. Like France, the Rumanians also demand a greater voice in control of nuclear weapons.

This repugnance for military blocs parallels Rumania's rebellion against all forms of supranational economic collaboration among the Communist nations. The 1966 resolution explicitly stated, "Rumania is developing relations of collaboration with all countries regardless of social system. Deeming that this is one of the ways of strengthening collaboration among people, Rumania is developing economic, cultural, and scientific relations with France, England, Austria, and other countries." Ceausescu especially stresses the development of friendship between Rumania and France, the critic of the NATO Pact. In his "stridently nationalistic" speech, Ceausescu "went further than any Communist Party ever has—further even than the Yugoslavs—in complaining about Soviet meddling in other nations' affairs."<sup>8</sup> He blamed the Soviets for appointing non-Rumanians to leadership positions which exposed their ignorance and produced disaster. He bitterly bemoaned the Soviet annexation of the Rumanian territory of Bessarabia in 1940 and the Russo-German nonaggression pact of World War II. In a subtle anti-Soviet move, Radio Bucharest "with equal delight" affirmed the visit of Premier Chou En-lai of China to Bucharest a few days after the Brezhnev visit, again asserting its neutral stance in the Sino-Soviet rift. The mandatory neutrality which allows for Rumanian maneuverability has created perceptible coolness toward the Soviet Union, a coolness reflected in the Rumanian attitude toward the Warsaw Pact. This lack of warmth was seen in the 1964 visit of the Soviet commander of the pact forces, Marshal Grechko, to Rumania and the January 1965 meeting of the pact. Rumanian delegates left immediately after the conference and invited ambassadors of "disenfranchised" nations of Albania, China, and North Korea to greet them on return from Warsaw. Rumania obviously fears that its inclusion in the pact threatens its neutral stand.

As recently as May of 1967, Ceausescu reemphasized the independence of the Rumanians in the formulation of their economic and foreign policies. In an article appearing in the May 7 issue of *Scantefia* he wrote:

"The crystallization of the Party policy presupposes free debate within its framework, of all the problems of social development."

He also said:

"The Party and state promote an active and many-faceted foreign policy, expand and intensify Rumania's relations with all countries, irrespective of the social system, make their contribution to expanding interstate cooperation, to strengthening confidence and friendship among peoples."

Restating the principles put forth in the 1964 resolution regarding the "privileged place" of a certain party, meaning Moscow, Ceausescu said that only "the respective Communist Party is the one which can know best the concrete realities within which it is waging its fights and that is why the shaping of its own political line, revolutionary tactics and strategy is its inalienable right." Smarting from Soviet verbal attacks upon Rumanian deviationism, Ceausescu added:

"The debating of all problems must be carried out in a climate of principled objectivity, without resorting to labels and invectives. In the framework of discussions, all opinions must be heard, nobody can claim to have the last word on one problem or another nor that any other views are non-Marxist."

He affirms the party's right not to participate in international meetings, such as the Karlovy Vary conference 10 days earlier, which the Rumanians boycotted, stating that "the existence of an international ruling center raises insuperable obstacles to the activity of the Communist Parties."

The RCP also implies in this statement a subversion attempt by the Russians, stating clearly that it is "inadmissible, under any form, for a party member to establish or to maintain, over the head of the leadership, relations with other parties, to supply information and to participate in actions against the political line of his party."<sup>9</sup> Although it is possible to minimize the extent of actual Soviet-backed subversion within the RCP, it must be remembered that the

<sup>8</sup> *New York Times*, May 14, 1966, p. 5.

<sup>9</sup> Radio Free Europe: Rumanian Situation Report, May 11, 1967.

major Rumanian statements of 1964 and 1966 were both reactions to Soviet attempts to restrain Rumanian freedom of action—in the first case, proposed blocwide planning and in the second case, an attempt to strengthen the military structure of the Warsaw Pact.

Along this same line, at Rumania's Independence Day celebration also in May 1967, Rumanian Premier Maurer stressed that the Independence Declaration of May 9, 1877, confirmed the country's sovereignty:

No power had any longer the right to interfere in the country's internal affairs, to impose foreign relations on it or to control them; the Rumanian state could decide by itself on its policy and its collaboration with other states.<sup>10</sup>

Such declarations lend credence to Rumania's independent actions in the political and economic realms in the years since 1963.

#### NEUTRALITY: TIES WITH YUGOSLAVIA AND CHINA

Rumania's determination to maintain her independence within the Soviet bloc has led to the development of closer ties with other rebels within the bloc, such as Yugoslavia, and to overtures toward Communist China in order to appear neutral in the Sino-Soviet split. That Rumania and Yugoslavia have similar views on relations with the Soviet bloc and non-Communist nations becomes abundantly clear in examining the growing friendship between these two dissenters. In 1963 when Rumania was rebelling against Comecon and multilateralism, RCP Secretary General Dej signed a bilateral "Iron Gates" agreement on hydro-electric power and navigation of the Danube with President Tito. This agreement was outside the framework of Comecon, and they considered inviting the non-Communist, non-Comecon country of Austria to participate in the project. The policy of "active coexistence" shared by these nations, or advocacy of peaceful engagement between the East and West, rather than mere tolerance, makes these rebels natural allies. This alliance was also seen in their joint boycott of the Karlovy Vary conference.

Rumania has taken advantage of the dispute between Russia and China which makes both sides wary of antagonizing their allies or prospective allies. Rumania has adopted a policy of careful nonalliance and neutrality, often acting as mediator, to assure its utmost freedom of action within the bloc. The country began capitalizing on the Sino-Soviet split in March 1963 when the RCP refused to publish Khrushchev's letter to the Chinese Central Committee which attacked that country's policies. Instead, the Rumanians published a letter by the Chinese CP on June 14, 1963, which defended the Rumanian economic policy of independently developing national potential. In this one aspect the Rumanian attitude coincides with the Chinese, although Rumania's overall ideology is far closer to that of the U.S.S.R. The Chinese "Proposal Concerning the General Line of the International Communist Movement" was prohibited in Russia and not to be published elsewhere in the communist world. The Soviets even expelled Chinese students from the U.S.S.R. for trying to distribute the proposal. Yet Rumania, like Albania, published a lengthy summary in *Scanteia*. The publication of this anti-Soviet piece was called "a direct affront to Moscow" by the French newspaper *Le Monde*, and interpreted as a means of asserting her independence.

Rumania was also the only East European country besides Albania to expand trade with China in 1963, with a contract calling for a 40-percent trade increase. Soon after the Comecon dispute the Rumanians embarked upon a series of agreements with China to further good relations. In July alone the two countries agreed to cultural and scientific cooperation. Also, in contrast to the other satellites, Rumania refused to publicly support Khrushchev's resolute stand against Mao. This refusal on the part of Rumania to sanction the isolation and condemnation of China was one consideration in the postponement of a Communist summit conference planned for 1964 in which Khrushchev hoped to read Peking out of the movement. Rumanian stubbornness led to the situation in 1967 where "the Russians have at last given up all hope of commencing a world Communist conference to excommunicate China—after almost 3 years of trying—and they have the Rumanians to blame."<sup>11</sup> Rumania alone of the bloc countries has actively lobbied for Communist China's admission to the United Nations. Rumania was one of the cosponsors of such a resolution, which their representa-

<sup>10</sup> *Ibid.*, May 17, 1967.

<sup>11</sup> *Reporter*.

tives called "the only just, realistic and possible solution." This Chinese-Rumanian friendship has been blossoming of late. Rumanian officials received a Chinese "friendship delegation" on April 24, 1967, and Rumanian delegates attended the May Day ceremony in Peking where Mao Tse-tung made one of his rare appearances. Apart from the Albanian and Rumanian delegations, no other East European attendance was mentioned by the official Chinese news agency. Rumania also has taken its own initiative to intervene in the Sino-Soviet dispute. Premier Gheorghe Maurer talked with both Mao in Peking and with Khrushchev in Moscow in March of 1964 and Rumania also drafted a tripartite resolution for unity. By being a "friend to all," the foxy Rumanians come out on top.

#### FRIEND TO ALL: ALBANIA AND WEST GERMANY

Rumania's "friend to all" attitude and affirmation of her national sovereignty has led her to independent diplomatic maneuvers, often at the expense of other nations within the Soviet bloc. A case in point is Albania; another is West Germany. Rumania has reestablished diplomatic relations with Albania after breaking them off in 1961 and is the first Soviet bloc country to do so—a striking contrast to the coolness between Albania and the other satellite countries. Also, Rumanian-Albanian trade agreements for 1963 and 1964 call for "considerable increases" in trade. A trade union delegation from Rumania headed by General Trade Union Council Gheorghe Petrescu left for Albania on April 20, 1967, to attend a congress of Albanian trade unions. Such a delegation points up the continuing interest in mutual trade.

Rumania is the only East European country to have established relations with West Germany. Diplomatic relations were established last January—1967—"against the Krenlin's wishes and over the protests of East German Chairman Walter Ulbricht."<sup>12</sup> The actual choice of ambassadors has likewise taken place. This move toward independence from the Soviet bloc and closer ties with the West at the cost of embarrassment to East Germany and Russia can be attributed largely to economic expediency. The Rumanians further their own nationalistic cause and their policy of "rapid, all-around industrialization" by receiving West Germany's superior industrial equipment. West Germany has overtaken Czechoslovakia and East Germany in trade with Rumania, ranking second only to the Soviet Union as its leading commercial partner. The volume of Rumanian-West German trade is approaching \$200 million a year.<sup>13</sup>—See appendix II. As a leading Rumanian spokesman said:

"Ideology is ideology, but business is business."

As early as November 24, 1965, the Rumanian-West German thaw became apparent. Rumania broke with the Soviet bloc to support West Germany's admission to the government council of the U.N. development program to fight the "war on want." According to the Washington Post of December 5, 1965, Rumania was the first Communist country to support the candidacy of West Germany for a U.N. office. Statements made by high Rumanian officials hint at the tempering effect which their mutual economic ties have on ideological differences. Rumanian Foreign Minister Corneliu Manescu said:

"The mistake should be avoided of considering the West German government as fascist or as having sold out to the Americans."

Calling for peaceful coexistence as a framework within which to solve major problems, he stressed the Rumanian position that no conflicts exist between Rumania and the other countries of Europe, East or West.<sup>14</sup> In a more recent statement of April 1967, RCP head Ceausescu stressed the need for a "realistic attitude" toward changes since World War II, calling for the recognition particularly of the two sovereign German states and emphasizing the inviolability of postwar borders. Unlike other Soviet bloc statements, the Rumanian statement made no mention of barring the FRG from access to nuclear weapons. Thus, the Rumanians have avoided antagonizing their new trading partner by subordinating ideological conflicts to the practicalities of business.

#### KARLOVY VARY

Friendship with West Germany also led to the recent boycott of the Karlovy Vary conference of April 24–27, 1967. The Rumanians, along with the Yugoslavs,

<sup>12</sup> *Ibid.*, p. 24.

<sup>13</sup> *Ibid.*

<sup>14</sup> Christian Science Monitor, Nov. 8, 1966.

Albanians, and three small Western European parties, refused to attend this conference of bloc unity and European security. The purpose of the meeting was actually to try to hammer out a common policy on the German question. The Rumanian reestablishment of diplomatic relations with Bonn served only to inflate the problem. The conference was mostly ignored by the Rumanian news. The only explanation of absence given by Radio Bucharest was:

"Inasmuch as in the course of the exchange of opinions and consultations which took place, no agreement could be reached in advance on the character, purpose, and proceedings of the conference, the Rumanian Party is not attending it."

This decision is especially significant as a sign of Rumanian dissidence for the Karlovy Vary conference was held at the highest levels and because it covered such a wide range of problems, in this case issues outside the Communist camp. Rumania obviously felt that participation in such a conference might hinder its freedom of action vis-a-vis the West, and especially in its diplomatic relations with Bonn. This active coexistence line resembles that of Yugoslavia. Rumania apparently shares the Yugoslav view that the cause of European security and coexistence would benefit more from negotiation at the state rather than at the party level.

It also is clear that unlike the rest of the Soviet bloc, Rumania feels that normalization of relations with other countries, in this instance the FRG, cannot be achieved by continuous denunciations, use of cold war methods, and prohibitive conditions for the establishment of diplomatic relations. Rumania has called its own attitude "realistic," implying that the conditions set up by Moscow's allies before relations can be established with Bonn are unrealistic. The meeting at Karlovy Vary by its very nature obviously would not abandon cold war tactics. Another reason for Rumania's absence could be that Karlovy Vary was intended to be a milestone on the road to a new international party conference. Also, "considerations of Rumania's economic interests" were also to a large degree behind the RCP decision, and not only "concern for European security" and the best political tactics for achieving it.<sup>15</sup>

#### BOYCOTTS OF CONFERENCES

The Rumanians have a rather long and impressive history of boycotting party conferences ever since their 1963 spat with Moscow. As early as January 1963, the Rumanians began to hint at their lack of enthusiasm for international policymaking CP conferences, by failing to attend an SED—East German—Party Congress. They asserted their neutrality in the Sino-Soviet dispute by avoiding a Comecon summit meeting at Ulbricht's birthday celebration in June 1963 which was meant to rally support against the Chinese. Nor did the Rumanians attend a "consultative" meeting in March of 1965 on this same subject. Rumania alone of the Warsaw Pact countries was absent at this preparatory meeting for an international Communist conference.

Former RCP head Dej seemed to have a personal grudge against Nikita Khrushchev, for Rumania did not join other Communist leaders to celebrate Khrushchev's 70th birthday in April of 1964, nor did they televise his report on his trip to Hungary, unlike the rest of the Soviet bloc. Yet the Rumanian aversion to Moscow-arranged meetings cannot be wholly attributed to personal conflicts with the Soviet leader, for Dej also avoided the first meeting of Comecon party leader in November 1964, after Khrushchev's ouster. Dej's successors carried out his independent attitude with regard to conferences. Both Ceausescu and Maurer boycotted the November 7, 1965, October revolution festivities in the Soviet Embassy in Bucharest. The Karlovy Vary boycott is the most recent example of this attitude.

#### UNITED NATIONS

International relations and diplomacy inevitably lead to discussion of the U.N. and as the success of Rumanian maneuvers toward independence at this point depends almost wholly upon tact and diplomacy, the U.N. has become one of her major concerns. Since 1963 Rumania has had a more active role in the U.N., serving a 2-year Security Council term and on the 17-nation Geneva disarmament committee. Corneliu Manescu, Rumania's foreign minister and U.N. delegate, is slated to be President of the next General Assembly. If elected, he will be the first Communist President of the Assembly. This increased activity cor-

<sup>15</sup> RFE, Apr. 26, 1967.

responds to the founding of Rumania's independent foreign policy, which is also clearly reflected in U.N. voting and resolutions.

In November 1963, alone, Rumania twice voted differently from the Soviet bloc. On November 20 Rumania voted for the U.S.-backed resolution favoring a denuclearized zone in Latin America, and on November 30 Rumania, along with Hungary, abstained from voting on a Soviet-backed resolution recommending a regional distribution of jobs in the U.N. Secretariat. More recent voting conflicts between the Soviet bloc and Rumania have arisen. In 1965 and 1966, Rumania broke away from the U.S.S.R. 13 times as shown by the U.N. voting records. Especially significant are the areas in which the U.S.S.R. and Rumania stood opposed. Voting conflicts occurred for the most part on Israeli-Arab issues as early as 1965, and on U.N. finances. Rumania, unlike the Soviet Union, never took sides in the Middle East issue, a neutral position which became most controversial in the aftermath of the Arab-Israel war. Also, unlike the Soviet Union, Rumania did not vote against the \$6.4 million for the 1967 technical assistance appropriations. As mentioned previously, West Germany also provided a source of Rumanian-U.S.S.R. conflict which is reflected in the U.N. voting record. In November of 1965 Rumania voted for West Germany's admission in the Government Council of the U.N. war on want development program, thus going against the Soviet Union and Czechoslovakia.

Besides voting autonomously, Rumania has introduced several resolutions independent of Soviet support. One of these resolutions is that backing Red China's admission to the U.N., another is that of the "Club of Nine" nations, calling for a reduction in trade barriers and improving relations among them. The purpose of this group—the first multilateral political meeting of East and West European nations exclusive of the participation of the United States and the Soviet Union—is to "improve reciprocal relations, with a view to creating an atmosphere of confidence which will be conducive to the effective consideration of the problems which are still hampering the relaxation of tension in Europe and throughout the world." Rumania herself requested the inclusion of this issue, which was adopted on December 21, 1965, in the agenda of the 20th session. Of this independent diplomacy, Rumanian officials have said:

"It has been a disagreeable experience for us to stand at the periphery of events while the two superpowers did our thinking for us. . . . We just want both to understand that we cannot be pushed around any more."<sup>16</sup>

#### MIDDLE EAST

The U.N. has become an arena for exposing U.S.S.R.-Rumanian differences over the Middle Eastern crisis. The Rumanians reaffirmed friendship with the Arabs yet avoided any condemnation of Israel whatsoever. The Rumanian delegation called for negotiations between the two sides and "elimination of all foreign interference." The Soviet bloc, on the other hand, was vocal in its condemnation of Israeli "aggression." The Rumanians were dismayed by the Moscow declaration which concerned exclusively the "just struggle" of the Arabs, their eventual triumph, and help against Israel. In contradiction of all precepts of coexistence, it did not say a word about negotiations in order to achieve a peaceful solution respecting the rights of both sides.

Rumania was the one Soviet bloc country, including even Yugoslavia, that failed to sign the Moscow declaration on the Middle East which demanded that Israel withdraw to prewar boundaries. According to the German Tribune of June 24, 1967:

"From the very outset Bucharest has called on both sides to accept a ceasefire, leaving the question of the aggressor open. As an ally of the Soviet Union, Ceausescu must have been afraid that Moscow would have used any agreement to take joint action as an excuse to enforce greater discipline within the Soviet bloc."

The Rumanian foreign minister invited both the United Arab Republic and Israel ambassadors to the ministry to appeal for the end to the conflict and negotiations to find "solutions to take into account the fundamental and legitimate interest of all people in that region." Rumania's explanation of her desire to step into the role of mediator in this crisis was her concern with "observance of each peoples' rights to live in freedom and to decide its own destiny for itself, for the application in international relations of the principles of national independence and sovereignty, equality, noninterference in the internal affairs, terri-

<sup>16</sup> *Scintila*, June 13, 1967.

torial integrity, for the assertion of the spirit of understanding and friendship among people and for strengthening peace in the world."<sup>36</sup>

The independent position taken by Rumania can be explained in several ways. The fact that a Rumanian is slated to be General Assembly President makes it advantageous to adopt a position of neutrality and mediator. Another possible explanation for the conflict in reaction to the crisis is a more subjective one of the governmental and popular attitudes existing toward the peoples of the United Arab Republic and Israel.

Whereas other bloc leaders such as Tito have had an almost sentimental friendship with Nasser, Rumanian heads of state apparently have had fewer personal bonds and less contact with the Egyptian chief. In addition, the various national sentiments about the Jewish people may influence the state attitudes toward the Israelis. In Russia, for example, Judaism is considered a political threat because governmental officials see Zionism as potentially unpatriotic. Anti-Semitism is rampant, judging by the furor raised over Yevtushenko's poem "Babii Yar" which exposed this Russian attitude. An anti-Semitic book written by a Russian in 1964, "Judaism Without Embellishment," has been called the "most vicious antireligious book of recent years." Its outer cover is "indistinguishable" from caricatures by Nazi Jew-baiters of the 1930's.<sup>37</sup> Rumania, on the other hand, made eradication of anti-Semitism one of her de-Stalinization projects. This trend bore fruit in 1967 when the Rumanian Government approved a permit for the major American Jewish welfare agency to establish an aid program for needy Rumanian Jews, and allowed the Rumanian Jewish community to re-enter the Jewish World Congress. Rumania thus does not fear a lack of patriotism as a result of these international movements.

Probably the most important reason for Rumania's care not to antagonize Israel is an economic one. In April of 1967 Rumania and Israel signed a long-term trade and payments agreement and an accord for economic, technical, and scientific cooperation covering 1967-70. The accord provides for a \$20 million exchange of goods in each direction, or eight times the amount of 1966. In addition, regular air links between Israel and Rumania are under consideration. Economic considerations thus come before bloc loyalty in the Middle East.

#### CUBA AND VIETNAM

The Middle Eastern crisis was not the first that caused a Rumanian break with the U.S.S.R., although it may be the most blatant example. In Cuba and Vietnam, opposition has taken a subtler course. During the Cuban missile crisis, Rumania publicly backed the Soviet condemnation of the U.S. blockade, but used more cautious, less strident tones. Rumania emphasized the need for wisdom and negotiations to resolve the crisis. Since that time, Rumanian-Cuban relations have cooled. Trade dropped from \$20 million in 1963 to under \$6 million in 1964. Also, in 1965 Cuba withdrew its students from Bucharest after authorities refused to let them stage anti-American demonstrations.

In Vietnam, Rumania does not approve of U.S. actions against a fellow socialist state, but her main concern is that the cold war atmosphere of crisis would limit her maneuverability with regard to the Communist world and the West. Rumanian reaction therefore is most constrained of the bloc countries with a relatively mild press, less frequent criticisms, and containment of threatened anti-U.S. student demonstrations against the Embassy. More significant, Rumanian trade with North Vietnam declined from \$10.8 million in 1963 to \$3.6 million just 1 year later. Because of her relative acceptability to both the United States and the U.S.S.R., to say nothing of China, Rumania has been considered a natural mediator in the crisis. Rumania has long tried to "break the logjam in efforts to get some kind of moves underway toward exploration of a Vietnam settlement." Because of Premier Ion Gheorghe Maurer's visits to both Washington and Peking in July of 1967, it was speculated that the Rumanians hoped to lead the countries closer to a settlement in Vietnam.<sup>38</sup>

#### TRADE

Under the banner of "active coexistence" or "the circulation of material and spiritual values," Rumania has moved toward rapidly increasing economic, cul-

<sup>36</sup> *Scinteia*, June 13, 1967.

<sup>37</sup> Harry Willetts, "Anti-Religion and Anti-Semitism," *Problems of Communism*, November/December 1964, p. 39.

<sup>38</sup> *Christian Science Monitor*, July 7, 1967, p. 18.

tural and scientific exchanges. Trade is the most obvious area of Rumanian overtures toward the West. Before 1963, Rumania traded almost exclusively with the Soviet Union. In 1958, 51.5 percent of Rumania's trade was with the Soviet Union and 22.2 percent with non-Communist countries. Today the figures have shifted to around 39 percent and 35 percent. The 5-year plan to be completed in 1970 calls for a 55-percent increase in trade but only a 30-percent rise in exchange with the U.S.S.R. On the other hand, this trade increase includes a projected expenditure of \$1 billion for Western industrial goods—twice the amount for the last 5-year plan—and “the difference is bound to be in the West's favor.”<sup>19</sup> The plan also calls for \$200 million purchase from the United States. The tale told by industrial import statistics is even more dramatic. In 1957, 84 percent of Rumania's industrial imports were from the U.S.S.R., while today the larger part is from the West, specifically from West Germany, France, Great Britain, and Italy. This policy leads to disagreement with already industrialized bloc countries which wish to dispose of industrial goods on the Rumanian market in exchange for food and raw materials. Rumania's justification is that Eastern European goods are inferior and retard industrialization. According to the 1964 declaration, trade with the West is an “extremely important means of advancing peaceful coexistence.”

Numerous trade agreements with Western nations illustrate Rumania's tendency of establishing closer ties with the West. This trend began with the British-Rumanian 5-year trade agreement concluded on September 27, 1963, which provides for a \$32 million exchanging of goods. Subsequent agreements were signed with West Germany, Italy and France. These agreements were possible because of even earlier overtures to the West. In 1958 Rumanian Prime Minister Chivu Stoica informed a U.S. newspaper that his government was willing to spend \$100 million on U.S. or West European industrial equipment. The Rumanian Government also settled Western and U.S. claims in 1959 and 1960 about compensation for property lost or confiscated during the war. Also in 1959, a high-level delegation visited six West European capitals and spent \$100 million as trade increased.

Rumania's trade growth reflects her rate of industrial growth which is the most rapid in East Europe with about a 15-percent per year increase. Export of industrial goods alone rose from 7.2 percent in 1950 to 32.5 percent in 1965. This increased trade with regard to sheer number of partners is also impressive.

Rumania trades with over 100 countries as compared with 29 nations just 15 years ago, and has participated in an ever-increasing number of international trade events. Rumania exhibited at six trade fairs in 1950 as opposed to 32 in 1965. Foreign trade figures of 1966 alone reflect Rumania's rapid industrial growth. Her overall foreign trade increased by 10.1 percent in 1966 over 1965 and four-fifths of Rumania's exports consisted of industrial products. These statistics again reflect her shift toward trade with the West. While the share in trade of the “socialist” countries—including the Comecon countries, Albania, Yugoslavia, Cuba, Outer Mongolia, China, North Vietnam, and North Korea—amounted to 65 percent in 1965, it fell to 59.6 percent in 1966. At the same time, trade with the “capitalist” countries—including the European industrial countries, the United States and Japan—increased from 29 percent in 1965 to 34 percent in 1966.<sup>20</sup> Rumania thus takes seriously her policy of developing “economic ties with all states, whatever their social order, on the basis of reciprocal advantage.”<sup>21</sup>

#### EXCHANGES WITH THE WEST

Economic reciprocity leads to mutual cooperation and exchanges in other areas. Rumania has agreed to cultural, scientific, and technical exchanges with most of its trading partners. The steel plant at Galati is conspicuous for the lack of the presence of Soviet technicians and for the presence of teams from Britain, France, and West Germany. As early as 1962 Rumania introduced political exchanges with Indonesia, India and Burma, partly to obtain ore for steel industries to lessen Rumanian dependence on the U.S.S.R. in this field. Such economic motivations lead to interest in other areas: Rumania's deputy foreign minister left for India in May of 1967 to sign a cultural exchange program. The same month, such an agreement was completed with Denmark. Previously contracts were signed with Italy for 1963-64, France for the 1963-65, and Belgium

<sup>19</sup> *Reporter*, p. 35.

<sup>20</sup> *RFE*, June 7, 1967.

<sup>21</sup> *Reporter*.

for 5 years, Rumania has developed a fetish for receiving and sending diplomatic missions all over the world and has raised most of her diplomatic missions to the level of ambassador. In January 1967, Spain and Rumania opened consular and commercial relations—the first time Spain has ever entered into formal consular relations with a Soviet bloc country. Because of her similar attitude to that of France regarding military blocs and nuclear proliferation, exchanges between these two countries are rapidly increasing in number and frequency. In May 1967, 50 French nuclear specialists met with their Rumanian colleagues in Bucharest while the chairman of the Rumanian Academy of Sciences journeyed to France to be made a member of the French Academy. Delegations have also visited the United States, France, Austria, and Japan as part of parliamentary technical, scientific, academic, and artistic exchanges.

#### RUMANIA AND THE UNITED STATES

The United States has finally begun to move into the void created by the Rumanian move away from the U.S.S.R. While the United States has not extended most-favored nation trade status to Rumania, a Presidential decree has licensed many previously restricted items for export to Rumania and has authorized the Export-Import Bank credits for their purchase. Although this easing of restrictions has increased United States-Rumanian trade more than four-fold from 1963 to 1964, and again from 1965 to 1966, the sole sizable U.S. investment in Rumania is a \$22 million oil-cracking unit being built by Universal Oil. Another bigger deal, a \$60 million synthetic-rubber complex to be built by Firestone, fell through after a storm of anti-Communist protests and competitor complaints to Congress. However, private firms are beginning to take advantage of Rumanian investment as evidenced by a Pepsi-Cola factory which recently started production in Ovidu. The increasing trade between the United States and Rumania after 1963 is significant, becoming a regular flow since President Johnson's executive order of 1964 and his subsequent removal of over 400 items from the so-called restricted list in October of 1966 and spring of 1967, relaxing licensing procedure.—See appendix III.

Although in October 1963 the U.S. Commerce Department granted a license to a private U.S. company permitting it to provide technical data for the design, installation, and operation of a steel mill in Rumania, the first official U.S. recognition of the Rumanian independence drive came in 1964. At that time U.S. Under Secretary of State Averell Harriman met with Rumanian Vice Premier Gheorghe Gaston Marin in Washington. Rumania previously had stated that it welcomed "capitalist" investment in her industries. This was the first time any East European government, including Yugoslavia, had ever stated unambiguously that such an investment was welcome.

The meetings in Washington had economic and political ramifications. The United States agreed to permit Rumania to buy most commodities in the United States without an export license. The United States also decided to grant Rumania export licenses for "particular industrial facilities of special interest." The President agreed to finance Rumanian import credits up to 5 years to be underwritten by the Export-Import Bank. Rumania's contribution was to guarantee the guarding against the re-export of U.S. goods and technology without the prior consent of the American Government and to provide for the protection of industrial property. On the political side, the United States and Rumania elevated their diplomatic missions from legations to embassies. Rumania reaffirmed her intent to allow the emigration of Rumanians with close relatives living in the United States. They agreed to negotiate over consular conventions, to promote tourism, and to expand cultural, scientific, and educational exchanges. Thirty-five hundred Americans did visit the Black Sea resort of Mamaia during the 1965 season. The United States sent a trade mission to Rumania in the fall of 1965 which encountered a "warm welcome" and "willingness to sit down and talk about possibilities."<sup>22</sup> U.S. overtures on our own soil have met with equal success and ready acceptance by the Rumanians. Rumanian heads of state have visited the United States several times since the 1964 meeting and Ambassador Gheorghe Deaconescu was the first Communist diplomat to officially witness the launching of a Gemini craft at Cape Kennedy.

Closer economic ties again lead inevitably, as in the case of Israel or West Germany, to a softer political line, at least in appearance. Anti-U.S. propaganda is less virulent than in other Soviet bloc countries. While a German radio

<sup>22</sup> *International Commerce*, Nov. 15, 1965, p. 7.

station reported an attack by a Rumanian official on the "U.S. imperialists," supported by "militaristic and revanchist forces," the summary issued by Radio Bucharest failed to mention this passage. The editors of *Scanteia* also requested that U.S. author Irving Stone write an article for them on universality, a theme which is a fitting one considering Rumania's new foreign policy.

#### DE-RUSSIFICATION

While Rumanian policy has been described as "harsh Stalinism at home and enlightened liberalism abroad," the government appears to have made a few inroads toward eradicating Soviet influence on Rumanian culture. This process is termed "de-Russification." One element of the eradicating process has included eliminating compulsory Russian language courses in secondary schools and closing down the prestigious Maxim Gorky Russian Language Institute, combining it instead into the Institute of Slavic Language and Literature of the University of Bucharest. The government closed down the Russian bookstore and reading room in Bucharest and imposed censorship on Moscow's international Communist publication, "Problems of Peace and Socialism" and replaced the Soviet "New Times" with a paper written by Rumanians including news compiled from all the leading world newspapers.

The Rumanians went so far as to eliminate the Russian names of public buildings, theaters, and streets. The government stopped the jamming of BBC, VOA, and RFE, a "cautious opening of a window to the West; another quiet hint to the population, and another reduction of Russian influence."<sup>23</sup> The Rumanians also publicly have opposed Soviet domination of the World Federation of Trade Unions, the International Student Union, and the International Federation of Democratic Women, arguing for unanimity rule. The government also freed all political prisoners. Perhaps the most striking of the de-Russification attempts has been the rewriting of history to remove the pro-Soviet slant originated under Stalin's regime. The government has downgraded the role of the Red Army in liberation of Rumania. A case in point is the differences between the two editions of the third volume of the official "History of Rumania." The first edition was published in 1963 while the second was in 1964. The contrast between the two editions eloquently demonstrates the evolution in political thinking in that short but crucial period. One such change is 1963:

"Russia handed back the Rumanian Principalities, the territory situated between the Dniester and the Prut excepted."

And 1964:

"The Rumanian Principalities, occupied from the very beginning of the war, were evacuated by the Russians, with the exception of the territory situated between the Dniester and the Prut, which was included into the Russian Empire."

Also, certain passages favorable to the Russians were deleted, such as one on page 484:

"The population of the Principalities sought salvation by Russia."

And page 939:

"Russia has contributed to the process of crystallizing internal Rumanian development."<sup>24</sup>

Rumanian concern with sovereignty and the threat posed by Russia came to a head when Russian scholar EB Valey proposed the creation of an interstate production complex in the Lower Danube section of Rumanian, Bulgarian, and Russian territories. The Rumanians were incensed by his impertinence in the very idea of removing a piece of Rumanian territory and attaching it elsewhere for whatever apparently good reason. Thus the "harsh Stalinism" is tempered by a somewhat anti-Soviet bias.

#### CONCLUSION

A fierce desire for national independence and sovereignty within the Soviet bloc has led the Rumanian Government to move away from the U.S.S.R. when it suits its self-interest. Capitalizing on the Sino-Soviet dispute, the Rumanian Government has attained the utmost maneuverability within the bloc and a position enabling her to make overtures to the West in both the economic and political realms. Such overtures are designed to speed the fulfillment of the Rumanian goal of "rapid, all-around industrialization." The increasing Rumanian-West-

<sup>23</sup> *Floud*, p. 98.

<sup>24</sup> *RFE*, May 24, 1967.

ern trade and Rumanian active involvement in international organizations such as the U.N. demonstrates her pursuit of her policy of "active coexistence." At the same time, her boycotts of all-Communist conferences and her hesitancy about the Warsaw Pact and military blocs show her distrust of supratate schemes and her intention to not become a Soviet puppet. Her independent stand from the bloc in matters of international import, as in the Middle East crisis, points to her increasing autonomy as does the broadness of her scientific and technical exchanges with non-Communist countries.

Economic incentives can be seen behind most of these overtures. These incentives have caused Rumania to put economic interest before concern with political embarrassment to her allies. A case in point is Rumania's recognition of West Germany, her chief Western trading partner, at the expense of Russia and East Germany. Her restrained anticapitalist rhetoric and overt invitations for investment to the United States, father of capitalist nations, suggests the possibility of continuing interest in closer trade relations between these countries. Considering the U.S. "bridge building" policy, this interest may ultimately lead to most-favored-nation treatment for Rumania.

The Rumanian "revolt" has been much more subtle than those previous, such as that of Hungary or Poland, and, therefore, more successful. By playing the part of "Communist good guy," and mediator on the international scene, Rumania builds its own prestige and autonomy at the expense of the Soviet bloc. Anti-Soviet moves such as "de-Russification" at home may suggest a gradual liberalizing of Rumania's internal policies. Rumania's strategy is paying off for itself and for the West. Her rapid rate of industrial growth and world prestige indicate that the seeds of autonomy sown by the Comecon dispute have indeed borne fruit. The United States and the West also reap the benefits, for "every step that strengthens Rumania's autonomy weakens Moscow's hold over the whole of Eastern Europe."<sup>25</sup>

The United States has taken several positive steps to improve relations with Rumania as a result of its growing independence and I favor extending the benefits of "most favored nation" treatment under our tariff laws to Rumania. I am of the opinion that the United States should lift its MFN agreement with Poland until Poland has ceased shipping arms to Vietnam. As a reward for her growing independence Rumania should be given MFN, to be renewed on a yearly basis. As a "punishment" to Poland for her arms shipments to our enemy, increasing disregard for her status as a member of the International Control Commission, unilateral breaking of many of the provisions of the 1956 modus vivendi with the church, I propose we lift her MFN.

The attitude of the Polish Government toward improving relations with the United States has been hostile and negative. Mr. Gomulka has publicly criticized efforts to increase contact with the West. Contrast this attitude with that expressed by Mr. Maurer, President of the Rumanian Council of Ministers, who said last week:

"The meeting and talks which I had with President Johnson in Washington . . . concerning the U.N. Session and other problems of common interest. . . . In this respect I would like to underline that the Rumanian Government rightly estimates the importance of the relations with the United States and desires to extend them; this problem does not belong only to us, but it also belongs to the position of the United States, to its desire to promote these relations on mutual advantageous basis."

The First Secretary of the Rumanian Communist party, Nicolae Ceausescu, said in his remarks before the Grand National Assembly last week:

"We are for the development of friendship between the Rumanian and American peoples, for the extension of relations between the two countries on mutually advantageous grounds, in the interest of cooperation and peace the world over."

Mr. Speaker, as a part of my remarks I insert at this point several recent editorials regarding developments in Rumania as well as the text of a letter I have written to each of my colleagues on the Foreign Affairs Committee asking that they support my amendment to lift Poland's status as a MFN which was granted by an amendment in 1963 to the Foreign Assistance Authorization Act of 1961:

#### "APPENDIX I

"Even more recently Ceausescu has bitingly criticized the Warsaw Pact. In a major speech before the Party active of Brasov on June 18 (*Scanteia* of June 19)

<sup>25</sup> Reporter.

the Party leader called for the "own command" of the military forces of each Warsaw Pact member country. He reiterated his advocacy of abolition of both the NATO and Warsaw pacts. The new element in this pronouncement is his underlining of the need for a national command of the armed forces of each Warsaw Pact member rather than a unified command as presently exists."

—  
"APPENDIX II

*Rumanian-West German trade, 1959-63*

[In million lei foreign currency]

1959	-----	256.4
1960	-----	539.2
1961	-----	680.5
1962	-----	789.6
1963	-----	780.6+304.4

—  
"APPENDIX III

*United States-Rumanian trade, 1960-1966*

[Thousands of dollars]

Year:	U.S. ex- ports	U.S. im- ports
1960	-----	-----
1961	-----	-----
1962	-----	-----
1963	-----	-----
1964	-----	-----
1965	-----	-----
1966	-----	-----
	27,242	4,655

—  
*Chief U.S. exports*

[Millions of dollars]

Product:	
Hides	-----
Chemical compounds	-----
Pipes	-----
Hand tools	-----
Power machinery	-----
Heating equipment	-----
Pumps	-----
Oil field equipment	-----
Oil valves, caps	-----
Electric circuit apparatus	-----
Prospecting instruments	-----
Electric measuring devices	-----
Specialized purpose vehicles	-----
	-----

—  
*Chief U.S. imports from Rumania*

[Millions of dollars]

Product:	
Cheese	-----
Xylene	-----
Pig iron	-----
Furniture	-----
Leather footwear	-----
	-----

[From the Christian Science Monitor]

## REDS RESTIVE: ROMANIA ASKS CHANGE IN WARSAW PACT

(By Paul Wohl)

The Warsaw Pact, which—unlike the North Atlantic Treaty Organization—seemed to be solidly united, now also shows signs of internal differences. What France has done to NATO, Rumania apparently would like to do to the Warsaw Pact.

Only Rumania has neither the political weight nor the geographical position of France. It has pledged to remain a fullfledged member of the Warsaw Pact, but it wants changes in the present setup.

Other bloc countries also are dissatisfied. Criticism of the organization and of the way it functions has become so strong that it took more than two months to reach an agreement on a successor to its former commander-in-chief, Marshal Andrei A. Grechko, who on April 10 became Soviet Defense Minister in place of the late Marshal Rodion Y. Malinovsky.

As Defense Minister of the Soviet Union, Marshall Grechko could not at the same time be commander in chief of the Warsaw Pact forces.

Last year when a reform of the Warsaw Pact was on the agenda, it was reported that the Romanians and Poles had proposed that the position of commander in chief should rotate among the pact members. In May, Moscow sources mentioned the possibility of a structural reorganization of the pact.

## WIDER VOICE PLANNED

The idea was to have a permanent council of defense ministers or deputy defense ministers of the member countries attached to the office of the commander in chief.

The suggestion to form a permanent council or secretariat inside the Warsaw Pact originally had been made by General Secretary Leonid I. Brezhnev.

The purpose was to give the other member countries greater say. The Eastern defense organization was to have at least the appearance of an international agency rather than that of an auxiliary of the Soviet Defense Department.

Financial considerations also were involved. Several member countries had begun to reduce their defense budgets. This might have led to a curtailment of their financial contribution to the Warsaw Pact and would have led to a curtailment of their financial \* \* \*.

Mr. Brezhnev's suggestion so far has not been acted upon. Instead another reorganization proposal was mentioned in Moscow in May. There were to be two regional commands: one for the northern tier, including Czechoslovakia, East Germany, and Poland; and another one for the southern tier—Bulgaria, Hungary, and Rumania.

## KREMLIN SUPPORT HINTED

Again no decision was reached. At one time it was reported that in order to get around the thorny problem of a structural reorganization of the Warsaw Pact, the Defense Minister of Poland, Marshal Marian Sychalski, should resign from his post and be made commander in chief of the pact forces.

The Warsaw Pact then could no longer be accused of being an appendix to the Soviet military establishment. Separation of the command from service in a national defense ministry would give it international stature.

There is evidence that a certain internationalization and a widening of the Warsaw Pact was supported at one time also by the Kremlin.

Thus Cuba and Mongolia were represented at the meeting of first secretaries and defense ministers of the Pact countries in Moscow in October, 1966.

Subsequently the first secretaries and the defense ministers were shown Soviet rocket installations at the so-called Cosmodrom in Central Asia and acquainted with the most advanced Soviet weapons.

These demonstrations seem to have left a lasting impression on the military. Mr. Brezhnev mentioned them again in his address at the Soviet Military Academy's graduation ceremonies on July 5, which was attended by high officers of all the Soviet bloc countries.

On Oct. 23, 1966, after the completion of the military demonstration, Krasnaya Zvezda, the daily of the Soviet armed forces, even suggested that North Korea might be included in an enlarged pact.

This suggestion also has been shelved. When on July 8 Marshal Ivan I. Yakubovsky was appointed to the vacant post of commander in chief of the Warsaw Pact forces, it was clear that the Kremlin's conservative line had prevailed.

#### MOSCOW RESISTS DEMAND

As in the past, the Warsaw Pact forces are headed by a Soviet marshal, who at the same time is First Deputy Defense Minister of the Soviet Union, and is flanked by a Soviet Chief of Staff, Gen. Mikhail I. Kazakov.

Marshal Yakubovsky is a former commander of Soviet forces in East Germany. General Kazakov held a corresponding position in Hungary after 1958.

A Romanian demand that Marshal Yakubovsky be relieved of his position as a Soviet First Deputy Defense Minister so far has been of no avail.

As if to stress continued Soviet supremacy, Marshal Yakubovsky even before his formal appointment was in command of recent Warsaw Pact maneuvers in Czechoslovakia and Hungary (June 14 to 19).

The large maneuvers of pact forces in southwestern Bohemia and Moravia in September, 1966, were commanded by Czechoslovakia's Defense Minister, Gen. Bohumil Lomski.

Pravda must have been aware of the misgivings aroused in Bucharest, and probably also in Warsaw, by the Kremlin's insistence on maintaining the organizational structure of the Warsaw Pact, when it appealed on July 21 to member countries "to consider their participation not as a formal membership, but as a vital, creative working cooperation in military and political matters."

The pact is indeed vital for the Soviet position in Europe.

According to data from French intelligence reports, published in the July 15 issue of the French biweekly "Est et Ouest," the forces of the member countries other than the Soviet Union number close to 1.2 million, including armies, navies, and air forces, or almost half as much as all the military forces of the Soviet Union.

[From the Washington Star, July 30, 1967]

#### ROMANIA ECHOES NON-REDS ON A-PACT

(By Bernard Gwertzman)

Romania has broken publicly with the other Warsaw Pact nations on aspects of the proposed nonproliferation treaty and has stated reservations strikingly similar to those voiced by West Germany, India, Japan and other nations.

Up to now, the Warsaw Pact countries have appeared to support the general lines of the treaty as proposed by the United States and the Soviet Union. The two major nuclear powers reportedly have agreed on a draft that simply calls on non-nuclear nations not to make nuclear weapons and on nuclear powers not to give any away.

#### FEARS REPEATED

This general agreement still lacks an accord on how the treaty would be policed, but all experts regard the verification section—the so-called Article 3—as negotiable.

Romania's objections, stated last week by Nicolae Ceausescu, general secretary of the Romanian Communist party, and by Emil-Bodnarus, a member of the executive committee of the party presidium, go much further than the simple disagreement over verification procedures.

They repeat the fears stated by such countries as West Germany, Japan, India and Sweden that the treaty does not provide guarantees that peaceful nuclear programs can be carried out, and that the treaty does not ensure the security of non-nuclear powers against nuclear blackmail.

Ceausescu said, in a speech to the Romanian National Assembly, that agreement on a nonproliferation treaty must go hand in hand with disarmament measures by the nuclear powers.

"Without clear, firm, and efficient action by all states to stop the production of nuclear weapons, for reducing and ultimately liquidating existing nuclear weapons stockpiles, nonproliferation would not only fail to ensure progress along the path of liquidating the danger of nuclear war but would bring about its indefinite perpetuation," he said.

"Such an approach to the nonproliferation of nuclear weapons would only legislate the division of the world into nuclear and non-nuclear states and allow the nuclear powers to continue to increase their nuclear arsenal and perfect the technology of nuclear weapons."

Ceausescu said that "with the assuming by the non-nuclear states of the obligation of renouncing nuclear weapons a nonproliferation treaty must contain precise obligations by the nuclear states regarding measures aimed at banning and destroying these weapons."

This is essentially the position taken by Sweden, Japan, Italy, and some other states, but regarded as unfeasible by Washington and Moscow.

India, faced with possible blackmail from Red China, has sought some built-in security pledge—but the United States has resisted this.

Ceausescu said "it is quite justified and necessary that—until the complete liquidation of the nuclear weapons—non-nuclear states get security guarantees and, first of all, the pledge of states which have the nuclear weapon, not to use it against them and not to threaten, under any circumstances, the use of this weapon."

Some West German leaders have voiced concern the treaty would inhibit the growth of nuclear powerplants, and the Romanian leader echoed this concern.

"Any restrictions regarding access to the peaceful use of nuclear energy would doom the non-nuclear countries to lagging behind, from the industrial and scientific point of view, and would encroach upon the right of all the peoples to benefit by the great achievements of modern civilization," he said.

Bodnarus pointed out, in his speech, that the production of the atom for peace "is inseparably linked with the process of producing the primary element of nuclear weapons, and peaceful research in some fields of nuclear technology is practically impossible to separate from that of military portent."

The Romanian statement did not come as a surprise to U.S. officials—and presumably did not startle Russia either. Romania is a member of the 17-nation Geneva conference discussing a nonproliferation treaty and these views have been stated privately by Romanian diplomats.

But the public nature of the reservations is sure to slow down progress on arriving at a treaty that will be signed by the world community. France and Red China already have stated their lack of interest and many of the reservations stated by Romania and others are unacceptable to the United States and Russia in treaty form.

Washington and Moscow appreciate the need for security of non-nuclear states, but believe this is a matter best taken up in the United Nations separately.

Romania's independent position is in keeping with its policies of recent years.

Although professing strong support for the unity of the Communist world, Romania consistently has taken unique positions, often appearing to be anti-Soviet. In recent months, for instance, Romania has gone against the rest of the Warsaw Pact in establishing diplomatic ties with West Germany, in refusing to condemn Israel as an aggressor, and in its views toward China.

In his speech, Ceausescu had warm words for the Soviet Union, obviously striving to ease the somewhat strained relations between the two countries; he also had friendly remarks for the United States, Red China, and virtually every other country in the world.

Romania, in fact, is the only country to have good relations with every major power.

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[From the New York Times, July 30, 1967]

#### A PURGE REVERSAL IN ROMANIA LIKELY—SIGNS OF REHABILITATION FOR EXECUTED RED ARE NOTED

(By Richard Eder)

BUCHAREST, ROMANIA, July 28.—The rehabilitation of Romania's most prominent victim of the Stalin-era purges is being predicted by a number of experienced diplomatic observers here.

The victim, Lucretiu Patrascanu, a Minister of Justice, was a founding member of the Romanian Communist party and a leader of a national group, as opposed to the so-called Moscow group, during and after World War II.

He was something of a hero to the intellectuals, but he rapidly lost ground within the party. In 1948 he was purged for what were described as bourgeois attitudes, and in 1954 he was executed.

Mr. Patrascanu, a man of relatively broad intellectual range and flexibility, was a principal contact between the Communists and the democratic parties, both during the war and in the early coalition governments that followed.

#### UNDER SUSPICION

He came under suspicion of the hard-line groups led by Anna Pauker and George Gheorghiu-Dej that took control of the party. Because of his contacts with other groups and because he had some popularity, there was a suspicion that he intended to build an independent Titoist position quite incompatible with the strict Moscow line that prevailed at the time.

Other Communist parties have long since rehabilitated purge victims—Wladyslaw Gomulka in Poland, Rudolf Slansky in Czechoslovakia, Laszlo Rajk in Hungary and Traicho Kostov in Bulgaria.

A mention of Mr. Patrascanu in a recent issue of a historical journal, brief but not condemnatory, was one sign that his status might be undergoing a change.

Adding weight to this are reports that the Patrascanu case was discussed intensively during a meeting of the Central Committee late in June.

#### SECRET POLICE CRITICIZED

This meeting was devoted to critique of abuses by the secret police—nine speakers were listed on the subject—and its decisions provided the basis for the recent speech by the party First Secretary, Nicolae Ceausescu, announcing reform of the security police.

Rehabilitation of purge victims in Romania creates a special problem.

In this case it was the man fully backed by the Russians—Mr. Gheorghiu-Dej—who led the shift himself, smoothly and without losing his grip. Since it was during Mr. Gheorghiu-Dej's rule that Mr. Patrascanu was tried and executed, any full-scale rehabilitation would tend to discredit the man whose associates are now running Romania.

This leads some political analysts to speculate that the readjustment of history in Mr. Patrascanu's case will fall short of a full-dress one.

#### SOME DOWNGRADING NOTED

Yet it is noted that some diminution of the late Mr. Gheorghiu-Dej's memory has already taken place. In his speech about the secret police, Mr. Ceausescu stressed that the worst of the abuses took place not recently but several years ago.

More significantly, in putting the main units of political security—the political police and mobile guards—under a newly formed committee, Mr. Ceausescu asserted that this would prevent any one man from being able to dictate the political, economic and social destiny of the nation.

The implication brought to mind the case of Mr. Gheorghiu-Dej who, until he died in 1965, held undisputed control of many phases of Romanian life.

Mr. Ceausescu, a generation younger, has put his associates in key positions and is undoubtedly the supreme figure here, though not to the same extent as his predecessor. On the nine-man party Presidium, it is customary to count five members as Ceausescu men.

#### FOUR OTHERS DIFFER

The four others—Chivu Stoica, Dimitriu Apostol, Emil Bodnaras and Alexandru Draghici, all of whom were like Mr. Ceausescu, close associates of Mr. Gheorghiu-Dej—are reported to be more independent. There are reports that some or perhaps all of these have expressed occasional doubt about the tactics of defying Moscow though not about the policy at issue.

The fact that Mr. Ceausescu called a Central Committee meeting before going ahead with the move on state security—not a practice of his—and the fact that his speech kept referring to the authority of the Central Committee, suggests to some experienced observers that he may have found his majority on the Presidium too narrow for a move of such importance.

In the light of this, some diplomatic observers believe that the cautious aspersions on the Gheorghiu-Dej era may lead to a gradual easing out of some or all of the four-man Presidium group.

[From the Christian Science Monitor]

## ROMANIA WALKS ALONE

(By Eric Bourne)

BUCHAREST, ROMANIA.—Romania has firmly reasserted its independent foreign policy both within and without the Communist world.

It has done so without seemingly aggravating the disagreement which has imposed strains on relationships with the Soviet Union and other bloc partners in the last few years.

It has not—as the more extravagant predictions on the eve of the current parliamentary session here had suggested—withdrawn or even hedged on its present membership in the Warsaw Pact and its parallel economic body, COMECON. Nothing really has changed.

It has said again, quite unequivocally, where it stands on international issues disturbing world and East-West relations—sometimes in line (Vietnam) and on several questions (Germany, the Middle East) out of step with its Communist allies. But it has done this without further offending the Russians. On the contrary, the latter might be gratified by the relative mildness—firm though he was on positions already taken—with which Romanian policy was expounded by the party leader, Nicolae Ceausescu.

He was opening what is euphemistically called here a debate on foreign affairs by the "supreme forum of the country," though Mr. Ceausescu is not himself a member of the government. Foreign Minister Corneliu Manescu sat mute amid the main body of deputies while foreign policy was presented.

The speakers following Mr. Ceausescu's lengthy review merely echoed what the party leader had to say, though few of his hearers would dissent from his renewed declaration of independence.

That in fact was the main purpose of this parliamentary exercise.

The divergence between Bucharest and Moscow over Middle East policy seemed to the Romanians to necessitate this further clarification of their position for their own people as well as the outside world.

With their usual flair for attracting attention to themselves, they drew a fair cross-section of the Western press to Bucharest and the sizable body of Soviet bloc journalists in residence here with advance hints that something interesting was afoot.

If there was nothing dramatic in the way Mr. Ceausescu restated Romania's position, it was not, however, without significance.

Notable was the absence of any of the openly or implied provocations of the Soviets which has usually figured in his speeches or written pronouncements in the party. It was as if he had said, "Enough 'needling' of the Russians, we can make our policy clear without it."

Some recent events here have, in fact, indicated the existence of dissenters—few, perhaps, in number but of some influence—as a result of too great a loosening of bloc ties and affinities. Mr. Ceausescu has apparently dealt with those, but nonetheless, while sticking to old ground and an independent Romanian policy, his tone was relatively mild and he said enough on other scores to mollify the Soviets and most of the East Europeans.

## APPRAISAL SOFTENED

If he berated the big powers—and in this context Romania would have mainly the Soviet giant of the Communist world in mind—for denying the small and medium powers a bigger voice in affairs, he was more generous in his appraisal of Soviet-Romanian relations than Romanian spokesman have been for some time.

These were given high place in his rundown of contacts with other countries. The Soviet Union's role in World War II—both in the allied victory and in the liberation of Romania—was more warmly acknowledged. So, too, was its massive contribution to Romanian foreign trade.

He put strong stress on the need for restoring unity in the Communist world and urged more and more meetings and exchanges among Communist parties, though steering clear of anything like the world assembly demanded by Pravda on the eve of this session.

He reaffirmed Romania's adherence to the Warsaw Pact and credited COMECON with a "positive part" in economic relations within the bloc. He disclosed

that Romania has advanced its own proposals which now are being negotiated for more cooperation and production between its members. He left no doubt about Romania's individual attitude towards West Germany, the Middle East, and the nuclear nonproliferation treaty where Romania's view has much in common with Western concepts. But the Soviets can \* \* \* accept these if the Romanians show no signs of rocking the boat further.

The sharpest overt words were for the United States—over Vietnam, of course, and the Arab states, who were bluntly urged to abandon dreams of "liquidating" the state of Israel. On this score anyway, the Romanians say, the gap between themselves and Moscow is not now so great since the latter is reportedly advising the Arabs to recognize Israel as part of a plan to secure its withdrawal from Arab territory.

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[From the Washington Star, July 30, 1967]

#### ROMANIA TO THE ARABS

In his address the other day to the National Assembly in Bucharest, Nicolae Ceausescu spoke warmly of Romanian-Soviet friendship and cooperation. Once again, however, he made clear that his independence-minded country, though Communist-run and a member of the Warsaw Pact, differs from the Kremlin on a number of key issues.

A significant example revolves around the Mideast crisis. Despite Moscow's pressures, Bucharest flatly refused to go along with the Soviet bloc's futile efforts, led by Premier Kosygin, to persuade the recent emergency session of the United Nations to condemn the Israelis as aggressors. Ceausescu, chief of Romania's Communists, reasserted this divergence in his National Assembly speech. Further, he used the occasion to deliver a polite but blunt lecture to the Arab militants. Suggesting that they engage in peace talks, he told them: "We do not understand and do not share the position of those circles which speak in favor of the liquidation of the state of Israel. . . . the lessons of history show that no people can achieve their national and social aspirations against another people's right to existence."

No other Communist leader has spoken out so forthrightly and constructively on the subject. Certainly the Russians have not. On the contrary, as far as the open record goes, their policy—despite a belated behind-the-scenes effort at the U.N. to persuade the Arabs to be reasonable—apparently consists of nothing but a continuing one-sided condemnation of the Israelis, a show of Soviet naval force in Egyptian ports and disturbingly heavy arms shipments to such revenge-seeking Arab states as President Nasser's Egypt.

In his recent cheerless report to his misled countrymen, Nasser repeated his stale war slogans. But he did declare, even if ambiguously, that he would "never slam the door to a political settlement" to bring peace to the Middle East.

If these words mean anything at all—which may be a big "if"—then possibly Romania's sound advice may yet find a hearing and a positive response in the self-deluded Arab world. It is a world desperately in need of such action.

## APPENDIX II

FINAL REPORT OF THE THIRTY-FIRST AMERICAN ASSEMBLY, ARDEN HOUSE, COLUMBIA UNIVERSITY, HARRIMAN, NEW YORK, APRIL 27-30, 1967

At the close of their discussions the participants in the Thirty-first American Assembly on *The United States and Eastern Europe* reviewed as a group the following statement. The statement represents general agreement; however, no one was asked to sign it, and it should not be assumed that every participant necessarily subscribes to every recommendation.

### INTRODUCTION

Eastern Europe continues to be highly important to the United States. This region, long identified with the main currents of Western history, has contributed as well to our own national development. The changes in Eastern Europe over the past decade afford opportunities to the United States, in concert with Western Europe, to devise policies which promote the aspirations of the East European peoples, and contribute to international order. The policies now required must have the wisdom, understanding, and support of the American people.

Clearly the future of the countries of Eastern Europe should be determined by the peoples of those countries themselves. United States policy toward Eastern Europe must also take into account the character and tone of relations between the United States and the Soviet Union and between the Soviet Union and Communist China. This policy will also be affected by developments in other parts of the world, such as Southeast Asia, and by other issues which require American attention and resources. There is no inconsistency of purpose in working for improved relations with Eastern Europe and the Soviet Union at the same time as we oppose communist aggression in Viet Nam and other parts of the world. Both policies are instruments designed to promote peace and freedom.

The core of American policy must remain the maintenance of national security, political vitality, and a readiness to use our resources with skill and resolution for the establishment of world order. We must remember that the progress of some of the states of Eastern Europe toward national independence has been influenced by American strength and policy, the existence of institutions such as NATO and the European Common Market, and the firm Western position in West Berlin.

The diversities among Eastern European countries, both in their domestic and international affairs, suggest that there is no single or simple policy for us or for them.

While continuing to pursue our active interest and role in Eastern Europe, the United States must recognize the fact that the peoples of Western Europe are closer in culture and in space than we to the peoples of Eastern Europe and will play a leading role in relations with that area.

The revival of national feeling, progress at varied levels and varied rates of speed toward greater autonomy and liberalization, the magnetic attraction of a revitalized West, and the pressures created by economic growth and resultant technological needs—all provide the United States and Western Europe the opportunity to assist the peoples of Eastern Europe toward a freer and more productive life. We should develop the means to pursue this opportunity in closer consultation with Western Europe, both within and outside NATO, than is the case at present.

The experience of Yugoslavia in the past two decades has illustrated both the possible political and economic evolution on the part of an Eastern European communist state and the mutual advantages flowing from normal and cooperative relations between such a state and those of the Western world. American attitudes and policies which have contributed to such trends continue to be relevant to developments in Eastern Europe.

In formulating long range objectives, we should take into account the forces contributing to change in the countries of Eastern Europe:

a. the move of these peoples toward national independence and responsive self-government, and their desire for the benefits of modernization, with the future character and form of each people's political and social system expressing its own individuality;

b. their desire to restore the traditional friendships between Eastern Europe and Western Europe so that the peoples of Europe as a whole may play a more important and constructive role in world affairs.

American policy should be so formulated and administered as to assist the spread of these changes in the communist world.

We seek evolution, not revolution. Therefore, the manner and style in which we execute our policies and seek these great goals are almost as important as the policies themselves.

In pursuing these objectives during the period of uncertainty, any policy, even a policy of doing nothing, is fraught with dangers. The proposals which follow are made with the understanding that no one can anticipate the future confidently and that accidents and the efforts of others may thwart our best designs. Frustrations might arise from the nature of the communist regimes, complexities of the German issue, the powerful Soviet position in Eastern Germany, and the reluctance of the Soviet Union and the regimes of Eastern Europe to permit fundamental change.

While it may be argued that some of these proposals could have the effect of solidifying communist rule, rather than encouraging forces which will relax and modify the system, the evidence of the last ten years supports the latter judgment. Finally, our policies, indeed any policies one could propose for this area, assume that the American people will have the good sense and patience to support the East Europeans in a process which will inevitably last a long time.

#### PROPOSALS

1. The United States should maintain and strengthen its relationships with the peoples of Eastern Europe, build common interests with them, and encourage them to resume a responsible role in world affairs. National independence for these countries is a prerequisite to policies of interdependence which are fundamental to the solution of international problems.

2. Our relationships with the Soviet Union should be taken fully into account in shaping our policy toward Eastern Europe. While searching for a stable European settlement, we should at the same time strive to reduce tensions in Europe so as to decrease the dangers of war. We should seek to prevent a new race for anti-ballistic missile defense, press for a non-proliferation treaty, and seek other means of arms control. Under existing conditions, such far-reaching approaches as neutralization of Germany or the establishment of atom-free zones in Europe, would not contribute to a satisfactory European settlement.

3. Germany and German reunification remain central to our policy for Europe. a. We should increase our level of interest and concern with Germany and with Europe. We should ensure that West Germany remains confident of the continued support of the United States and its allies for the unification of Germany.

b. Our policy suggestions do not include East Germany, the situation of which is different from that of the Eastern European states. There seems to be no immediate prospect for a plebiscite within Eastern Germany regarding reunification of Germany, but the desire for national unity persists.

c. We should, with the Federal Republic, be prepared to accept the Oder-Neisse line as the boundary between Poland and a reunited Germany when the communist powers are prepared to withdraw from the Elbe.

d. We welcome Western German economic and diplomatic agreements with the countries of Eastern Europe.

4. The United States welcomes the re-establishment of closer relations between Eastern and Western Europe and the expansion of West European cultural and technological contacts. The changing situation in Eastern Europe

affords new opportunities for mutually beneficial economic relations, especially trade.

a. Congress should eliminate all legislative and procedural controls over trade in non-strategic items with Eastern Europe more restrictive than those of our allies, so that trade relations may become normal.

b. American trade with Eastern Europe in non-strategic items should remain primarily the responsibility of American businessmen. Credit should follow the customary commercial patterns of trade, with government guarantees when appropriate.

c. The Congress should provide the President with the authority to extend non-discriminatory treatment to imports from any Eastern European state when he determines such a step is in the national interest.

5. With our Western European allies, we should encourage the active participation of the Eastern European states in the United Nations as well as in international institutions, such as OECD, GATT, and the aid consortia of the World Bank.

6. The vitality of Western culture has a powerful attraction for the peoples of Eastern Europe. Individual Americans, foundations, universities, learned societies, religious groups, trade unions, community organizations such as World Affairs Councils, and the government alike should all contribute in their own way to increasing the reciprocal flow of ideas, people, publications, and artistic works.

We propose:

a. The expansion of exchange programs, particularly with opportunities for a richer intellectual development for East European leaders from the most important fields of activity and study.

b. New emphasis upon arrangements for continuing cooperative work of groups here and in Eastern Europe on common problems, such as air pollution and medical research.

c. The sharing of knowledge in areas central to modern life, such as business management, public administration, and non-strategic technology, to help speed the transformations already underway in those countries.

d. Expansion and improvement of English language instruction and of systematic study and knowledge of the United States in universities, and of libraries on the United States.

e. Continuation and enlargement of our efforts to provide accurate news and cultural programs via Western radio and television stations, and an increased flow of Western publications into Eastern Europe.

7. The historic cultures of these peoples have enriched American life. In spite of the impressive achievements of the last two decades, knowledge and understanding of Eastern Europe in the United States remain inadequate. Universities should continue and the private foundations should expand their investment in research, instruction, and publication concerning Eastern Europe. Programs of the International Education Act should include attention to these goals.

APPENDIX III. AN EXCHANGE OF CORRESPONDENCE BETWEEN CHAIRMAN KELLY AND THE OFFICE OF EXPORT CONTROL, DEALING WITH THE SHIPMENT OF AMERICAN COMPUTERS TO EASTERN EUROPE

MAY 6, 1968.

MR. RAUER MEYER,  
Director, Office of Export Control, Department of Commerce,  
Washington, D.C.

DEAR MR. MEYER: I am attaching a self-explanatory item from the *Congressional Record* of May 1st.

In conjunction with my Subcommittee's continuing hearings on East-West trade, I would appreciate your cooperation in submitting to us whatever information is available regarding the issuance of an export license for the shipment of Series 360 IBM computers to East Germany.

Your sincerely,

EDNA F. KELLY,  
Chairman, Subcommittee on Europe.

[Excerpt from p. H-3180 of the Congressional Record May 1, 1968]

PROSPECTIVE SALE OF 360-SERIES COMPUTERS TO EAST GERMANY

(Mr. BLACKBURN asked and was given permission to address the House for 1 minute and to revise and extend his remarks).

Mr. BLACKBURN. Mr. Speaker, recently it has come to my attention that International Business Machine Corp.—IBM—plans to sell one of their 360-series computers to East Germany. Furthermore, it has been brought to my attention that IBM has sold 1400-series line computers to Bulgaria, Poland, Czechoslovakia, and Hungary.

Until recently, IBM's 1400-series data processing system was among the world's most complex and sophisticated systems. However, now IBM has developed its new 360-series and wants to sell it to the East Germans. By the way, East Germany is so hostile toward us that we do not have diplomatic relations with them.

The 360-series computer is IBM's most advanced. It occupies many rooms and is used by many major American corporations, the Federal Government, particularly in national defense installations. For example, this 360-series is now an integral part of our Polaris missile system. IBM is now campaigning to sell this new system to Eastern European Communist nations and East Germany, all of them now participating to some degree in supporting Hanoi's war effort.

It is a well known fact that Communist countries embark on trade programs in areas in which they find themselves deficient. With the United States Government, and our own private corporations spending billions on research and development, Communist nations can easily take full advantage of our technology by buying the machine from us, thus benefiting from our scientific and technological know-how. So, we build up their war-making capability with our technology, while at the same time we try to fight Communist aggression in Vietnam. I find this policy totally inconsistent with any sane foreign policy. Are we supposed to trade and be kind to all Communists west of longitude 140 degrees and north of latitude 50 degrees and kill all Communists elsewhere?

Today, I entered a concurrent resolution which would express the dissatisfaction of Congress, with the negotiation to sell, and the subsequent sale of, advanced computer systems to Communist nations by certain American business corporations. I hope that the House will consider this matter as soon as possible.

U.S. DEPARTMENT OF COMMERCE,  
BUREAU OF INTERNATIONAL COMMERCE,  
Washington, D.C., May 23, 1968.

HON. EDNA KELLY,  
House of Representatives,  
Washington, D.C.

DEAR MRS. KELLY: This is in reply to your letter of May 6, 1968, regarding alleged sales of computers to East European countries by the International Business Machines Corporation.

With regard to the enclosed excerpt from the *Congressional Record* of May 1st, we believe much of the information is incorrect. The IBM 1400 series data processing system, first introduced in 1960, is not considered sophisticated and includes only small and relatively slow computers. Even at the time of their introduction, those computers were far less powerful than many other computers manufactured by IBM and other firms. They have since become obsolescent and find use only for nondemanding applications.

The IBM 360 series includes computers ranging from a small, business-type machine at the low end (the 360/20), to a very advanced, complex and sophisticated computer (the 360/92) at the top. The smaller machines are used primarily for simple applications, such as inventory control, payroll, and routine calculations. Some of the large 360 series computers are suitable for handling strategic problems in military, space and atomic energy areas.

We have consulted the Department of Defense with regard to the statement in the *Congressional Record* that the 360 series is an integral part of the Polaris missile system, and are advised that no IBM equipment is used in any Polaris submarine, submarine tender, or missile. In fact, we are told that no IBM computer is used in the Polaris weapons system at all. Our DOD contact did advise, however, that some IBM equipment is found in certain installations which bear some relation to the Polaris program. For example, an IBM 360 computer at a base in California is used to correct data from a Navy satellite which the Polaris uses for guidance. An IBM 360 computer was used at a base in Virginia to develop the flight table for the Navy satellite which guides the Polaris. An IBM 360 computer in South Carolina is used in connection with logistics support for the Polaris fleet. In addition, a major contractor for the Polaris program reportedly uses an IBM 360 computer for payroll and other administrative functions. However, according to a Department of Defense computer expert, these jobs are all routine operations that could be performed by any of a number of available computers.

With regard to the licensing of computers for shipments to East Germany, I can confirm that the Office of Export Control has approved applications, submitted by various firms, to export U.S. computers equivalent to the small IBM Series 360 computers to a number of East European countries. Nine such computers were licensed for East Germany, three of them for exhibit only. We have not issued licenses, however, for the export to those destinations of computers equivalent to those in the upper range of the IBM 360 Series.

The computers that have been licensed for export from the United States were in all cases relatively small, incapable of handling advanced problems, and specifically suitable for the routine business-type operations for which they were approved. All applications for computers are scrutinized with great care, and expert advice is sought to assure us that the computers, if licensed, would not make a significant contribution to the military capability of the Soviet Union and other Communist countries. As a result of this screening process, we have not granted licenses for the export to Eastern Europe of any of the large, versatile computers capable of handling advanced problems in military, atomic energy, or space activities.

A further consideration in licensing computers is that models equivalent to those we approve are readily available from Western Europe and Japan. Refusal to license such computers would be neither meaningful nor effective in denying similar computer capacity to East European countries.

Sincerely yours,

RAUER H. MEYER,  
Director, Office of Export Control.





